House of Commons

International Development Committee

Department for International Development's Performance in 2013-2014: the Departmental Annual Report 2013-14

Thirteenth Report of Session 2014–15

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 18 March 2015

HC 750
Published on 21 March 2015
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

International Development Committee

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1 Contents

Summary

We are proud that the UK has become the first G7 country to meet the UN target of spending 0.7% of GNI on Official Development Assistance. However, meeting the target has caused problems, particularly as there was a huge (33%) increase in DFID spending from 2013 to 2014.

In 2013 DFID spent 40% of its budget in November and December, whereas in 2009 the figure was only 22%. We are concerned that the spending pattern is the result of the need to meet the 0.7% target and might not provide value for money. We recommend that DFID improve its forecasting. We are concerned that the way ODA accounts for promises of core funding to multilateral organisations (promissory notes) encourages DFID to overuse multilaterals. We recommend that the NAO review the use of promissory notes. We further recommend that DFID assess whether the issuing of promissory notes in 2013-14 encouraged the overuse of multilateral organisations, and report how long promissory notes have been outstanding.

The share of DFID spending which goes to multilateral organisations has increased as has the share going to humanitarian assistance, and spending through centrally managed programmes. DFID is now the world's largest funder of multilateral organisations. We recommend DFID assess whether this represents better value for money than spending on bilateral programmes. DFID now provides 13% of all OECD spending on humanitarian assistance. This is too much and enables other OECD donors to fail to meet their obligations.

On the other hand, spending by DFID's priority country teams has declined relatively, as has spending on programmes in sub-Saharan Africa and on key MDG targets such as reproductive health. We recommend that DFID increase the share of expenditure going to bilateral programmes, to sub-Saharan Africa and significantly increase spending on reproductive health.

DFID has increased the number of staff it employs, but the amount spent per member of staff has increased significantly. To use staff time efficiently DFID has a focus on large programmes, which are outsourced to multilateral organisations and large contractors to manage. Smaller, expert suppliers tend to be overlooked as we saw in our recent report on Parliamentary Strengthening. We recommend that DFID reassess these trends and in its reply indicate what changes it intends to make. We recommend that the Government allow DFID further to increase the number of staff it employs so it can spend its increased budget cost-effectively.

DFID's increased emphasis on Payment By Results was a concern to many witnesses in this inquiry. We recommend that DFID introduce Payment By Results with considerable care to ensure the many potential difficulties are addressed.

We welcome DFID's improvements to programme management, notably the introduction of SMART rules to reduce the amount of bureaucracy. We recommend that DFID ensure

that the new rules are accompanied by a real change in culture.

While the emphasis on programme management is important, DFID must also recognise the importance of other skills such as the ability to influence its partners. We recommend that DFID increased its standard posting from three years to four. We further recommend that DFID provide in its 2014-15 Annual Report comparative data on staff turnover and the average service period in country offices for each of its country offices.

We recommend that DFID place more emphasis on language skills. Knowledge of a local language should be a competence for a posting, learning key languages should be encouraged from the start of careers and staff should have relevant language lessons before they begin their posting.

2 Introduction

1. 2013 was the first year in which the UK met the target of providing 0.7% of gross national income as Official Development Assistance since the target was first proposed by the UN in 1970. We welcome this achievement, but it has presented serious challenges. The target and these challenges are the focus this year of our annual review of the Department for International Development's (DFID's) financial performance and Annual Report and Accounts to Parliament. As part of the inquiry, we asked the NAO to prepare a report looking at how DFID was managing its spending to meet the Official Development Assistance target.

2. During our inquiry we took evidence from the Department's Permanent Secretary and the Director General of Finance and Corporate Performance. We also received a number of written submissions from a variety of DFID's delivery partners and external evaluators looking at different aspects of DFID's spending, management and programming, including new mechanisms such as Payment By Results.

3. This report is divided into four chapters:

- Chapter 2 discusses how DFID has managed to meet the ODA target, and both the challenges and consequences of meeting it as currently defined.
- Chapter 3 looks at the implications its growth in spending has had for changing dynamics in its spending.
- Chapter 4 looks at how DFID's delivery channels and commissioning are changing as its budget has grown.
- Chapter 5 looks at how DFID is changing is programming and staffing.

3 Managing the 0.7% Target

Meeting the 0.7% Target

4. DFID's spending has grown to allow the UK to meet the 0.7% target for Official Development Assistance (ODA) for the first time. The Department concluded that the 2013 ODA target was achieved as final ODA of £11,462 million was 0.71% of gross national income when calculated using the approach that the Office for National Statistics had applied throughout 2013.[1] DFID's Mid-Year Report 2014–15 also notes that the Department is on track to meet the target in 2014.

5. In 2013 only four other donor countries achieved this target.[2] The UK is the largest economy ever to have done so–its 2013 ODA expenditure was larger than these four other donors combined.[3] Meeting this target is a significant achievement and the NAO notes that the commitment "provides an opportunity for the Department to increase its impact on poor people in developing countries."[4]

6. Figure 1 shows how the UK's ODA compares to international peers in monetary terms. The UK is now the second largest provider of ODA, after the US. While its increase in ODA since 2010 (28%) is roughly comparable to other international peers, such as Japan (20%), Australia (16%) and Switzerland (23%),[5] it contrasts, with the decline in ODA provided by a number of European countries–for instance, since 2010 France's ODA has declined by 16%, Netherlands by 18% and Spain's by 60%.[6] Equally, the UK's increase is not the largest increase over the period: Saudi Arabia, the United Arab Emirates, Turkey and South Korea have all increased their ODA contributions very significantly in the past few years.[7] These changes reflect not only recent regional crises but also the shift in spending away from the traditional DAC countries.

1 NAO report, paragraph 1.22

2 The other countries were: Norway (1.07% GNI), Sweden (1.02%), Luxembourg (1.00%), and Denmark (0.85%). See: NAO report, Figure 5, p. 23

3 The four countries ODA totalled £9,447 million in 2013. Norway donated £3,570 million ODA; Sweden £3,730 million; Luxembourg £275 million; and Denmark, £1,873 million Source: Statistics on International Development Tables C3: Provisional Net ODA from DAC Donors, 2013 (£ millions)

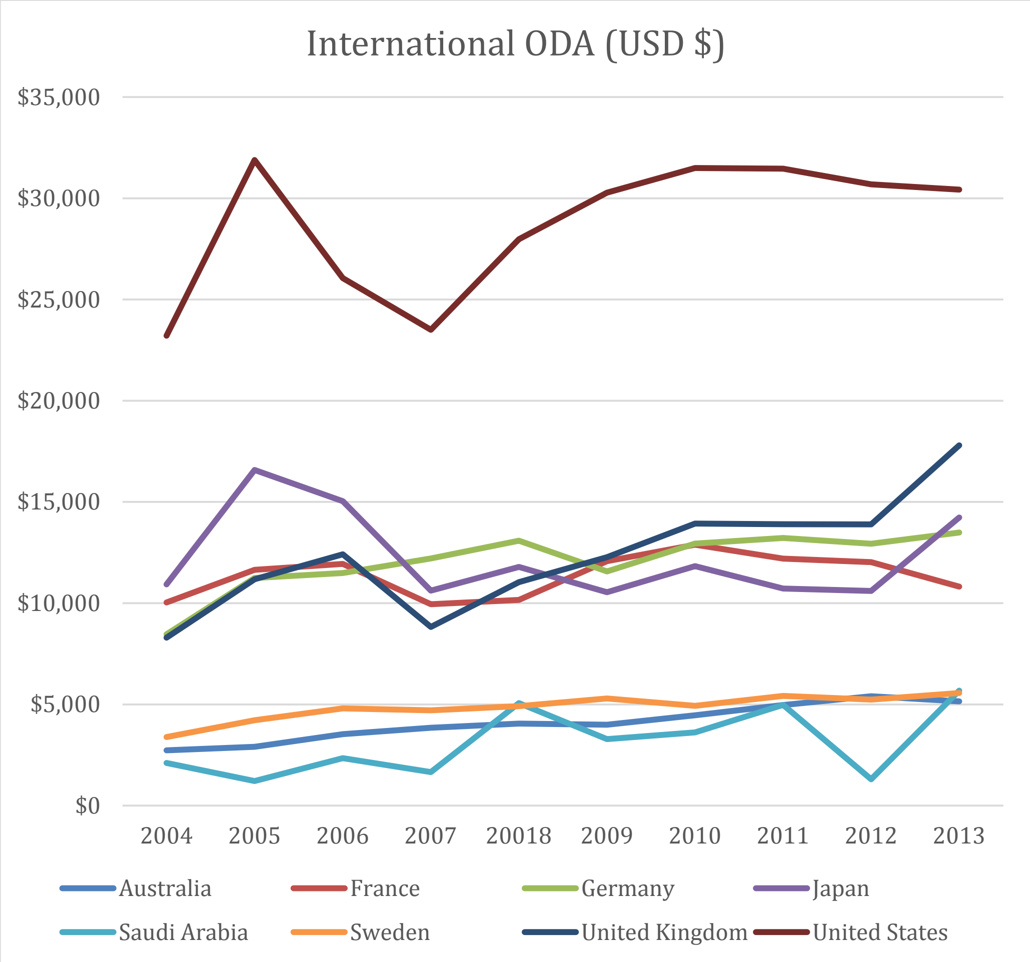
4 NAO report, paragraph 5

5 Between 2010 and 2013, Japan's ODA increased by 20% (from $11,827 million to $14,235 million), Australia's increased by 16% (from $4,459 million to $5,152 million), and Switzerland's increased by 23% (from $2,570 million to $3,160 million)

6 Between 2010 and 2013, France's ODA decreased by 16% (from $12,889 million to $10,281 million), Netherlands decreased by 18% (from $6,322 million to $5,182 million) Belgium decreased by 28% (from $3,033 million to $2,192 million), and Spain by 60% (from $5,774 million to $2,281 million)

7 Between 2010 and 2013, Saudi Arabia increased their ODA by 57% (from $3,614 million to $5,678 million), Turkey by 253% (from $934 million to $3,316 million), UAE by 1156% (from $430 million to $5,397 million, 1.25% GNI), and South Korea by 36% (from $1,235 million to $1,685 million)

Figure 1: International ODA contributions over the last 10 years



Source: Official Development Assistance data

7. Key to meeting the ODA target has been DFID's preparation of a pipeline of projects. Richard Calvert of DFID told us:

> The key for me is if we could build up a strong enough pipeline in time for the scale-up of the budget in 2013 and the maintenance of that beyond, could we build up a strong enough pipeline that gave us enough choice and contingency to make sure that we could cope with the inevitable uncertainties which there would be, and there were in the autumn of 2013 and there were again in autumn 2014 as well? Did we have enough choice to be able to adapt our programme, and did we have enough mechanisms to enable us to avoid that disrupting the delivery of programmes on the ground?[8]

8. However, meeting the target has not been straight forward for a number of reasons:

- DFID is required to hit, but not significantly exceed, the 0.7% target: This means that the Department has to hit a narrow target against a background of

8 Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q32

considerable uncertainty.[9] Adam Smith International observes: "The band for 0.7% is set too narrowly, at between 0.69% and 0.71%."[10] In 2013, this meant DFID had a margin for error of approximately ±£160 million in its spending, equivalent to approximately ±1.5% of 2013 ODA (£11.4 billion). Given that DFID works with a high level of operational uncertainty with the kind of environments it operates in, requiring adjustments to meet this level of precision gives HMG an additional, self-inflicted level of complexity.

- ODA is accounted for differently from DFID's normal financial accounting for Parliament: The ODA target is calculated on a different basis to DFID's regular financial reporting in two ways. First, it is calculated on a calendar year basis (year to December); rather than according to the Government's standard financial year (year to March), which is how DFID's financial systems and financial reporting to Parliament are organised. Second, for the ODA target, the Department has to record expenditure as it is paid out, on a cash basis (with the exception of promissory notes, whose significance are discussed below); for its accounts, the Department must record expenditure on an accruals basis, i.e. when an activity occurs. This is the basis on which it is accountable to Parliament and reports in its Annual Report and Accounts. There can be a situation where something counts as spending under one set of rules, but not under the other. For managing ODA, this difference is complicated because DFID's systems, and government's wider financial controls, are primarily oriented towards managing and monitoring spending on this accruals basis for a financial year ending in March.

- Changes in the calculation of Gross National Income (GNI): The ODA target is a moving one, because of changes in how gross national income is calculated. Different methods of calculation caused 2013 GNI to vary by approximately £100 billion between £1.6-1.7 trillion.[11] Due to this uncertainty, DFID only reported its 2013 performance in October 2014, when it published four values for the ratio of 2013 ODA spending to gross national income, ranging from 0.67% to 0.72% depending on how gross national income is calculated. It is using a different method for 2014 ODA compared to that used for 2013 ODA[12]

Changing Spending

9. Meeting the 0.7% has meant, as Adam Smith International noted, that in recent years DFID has gone through "various contortions, with spending being speeded up or slowed

9 NAO report, paragraph 12 and Figure 4

10 Adam Smith International Submission, paragraph 3.3

11 The Department and HM Treasury decided that the 2014 ODA target value would be set using the approach the Office for National Statistics had used to calculate gross national income up until September 2014. This approach - European System of Accounts 95 without reservations addressed - is broadly consistent with the basis of the gross national income figures that were available when HM Treasury had set the Department's 2014-15 budget. This approach is likely to yield a 2014 target value of around £11,800 million. According to the NAO, if the 2014 ODA target was set using the European System of Accounts 2010 - the main way the Office for National Statistics now reports the national accounts - the target value could be around £500 million higher at £12,300 million. See: NAO report paragraph 1.40

12 NAO report, paragraph 11, Figure 4

down to fit the target in question. This disrupts programmes and diverts management attention away from more useful activity.”[13] In 2013, the requirement for the Department to deliver a minimum level of ODA led to it rescheduling and adding extra activities to its planned 2013 programme in the second half of the year, as it looked likely to underspend.[14] It also rescheduled and increased the promissory notes it issued to certain multilateral organisations.[15]

10. Subsequently, DFID identified in December 2013 that it risked overspending its ODA target, and so postponed £50 million of payments to close partners.[16] It also delayed paying or resolving £61 million of invoices from suppliers until January 2014.[17] To meet its 2013-14 control totals, it also rescheduled some 2013-14 activities planned for January to March 2014 into 2014-15.[18] In the last 10 days of December, new ONS data on GNI required DFID to speed up its spending to meet the target, and it made £95 million payments in response to urgent issues.[19] This chopping and changing was not a one-off. DFID brought forward £450 million of spending into 2014 that had been planned to be spent between January and March 2015, leaving only 10% of the budget for the last 3 months of the year.[20] It also brought forward £300 million of planned 2015-16 expenditure into December 2014.[21]

11. The NAO noted at least three negative consequences of chopping and changing to date:

- **It takes away staff time from more valuable work:** Repeatedly changing the Department’s planned programmes, for reasons that have no benefit for operational requirements on the ground, consumes the time of staff in the Department's corporate centre and spending teams on accounting issues that might have been spent on other programme support work.[22] For instance, to reschedule its 2014 spending, DFID manually reviewed all of its global payments over £2 million planned for January to March 2015 to see what could be brought into 2014 ODA figures or postponed into the 2015-16 financial year.[23]

- **It limits DFID’s delivery options on the ground:** Last minute spending decisions inevitably exclude open competition for suppliers as a delivery route for new

13 Adam Smith International Submission, paragraphs 3.1-3.2

14 NAO report, paragraph 14

15 The NAO note: “In line with OECD rules the notes count as ODA when they are issued, which is typically 2 years before they are cashed. The need to increase spending was a factor the Department considered when it decided in autumn 2013 on the size of promissory notes it subsequently issued in December 2013 to the World Bank’s International Development Association and to the Global Fund to Fight Aids, Tuberculosis and Malaria.” NAO report, paragraph 15

16 For instance, DFID delayed a planned payment of £50 million to one of CDC’s fund managers until the start of 2014. See: NAO report, paragraph 15

17 NAO report, paragraph 1.17, Figure 2

18 NAO report, paragraphs 1.38-1.39

19 NAO report, paragraph 1.20

20 NAO report paragraph 1.42

21 NAO report, paragraph 1.44

22 NAO report, paragraph 1.49

23 NAO report, paragraph 1.42

projects, since proper procurement processes take time.[24] DFID's late decision making for spending in 2013-14 meant that there was not the time to engage the market, and procure competitively - so a significant proportion of late spending was given to multilateral organisation. The NAO reviewed all the additional options that led to spending of £10 million or more from a sample of 12 DFID spending teams, who together cover half of DFID's budget.[25] The NAO found that 89% went to multilateral organisation, 6% to NGOs and 5% to government systems. DFID had a pre-existing relationship with all delivery partners who received additional funding.[26] Chapter 3 discusses this issue in more detail.

- **There is insufficient time to consider alternatives.** Throughout 2013 DFID teams' programmes of approved and planned projects were smaller than their budgets. It was taking teams longer than expected to get new projects designed and approved.[27] DFID did not actually have enough projects approved to allow for choice until Spring 2014.[28] It did not have enough time to explore new opportunities when last minute adjustments were needed:

12. In May 2013, the Department identified that the 2013 target was unlikely to be met from its planned programme. It had to increase its 2013 expenditure by up to 10%… Given the limited time available the Department could only choose activities where funds could be paid out during 2013. It may therefore have missed opportunities to get the best outcomes from this spending.[29]

13. DFID claims that the situation will improve now DFID is maintaining spending at 0.7% of GNI rather than significantly expanding spending:

> "What we feel, as management in the Department, is that actually 2014, the second year we were doing 0.7%, went a bit better than 2013. We feel we have got a handle on this… It feels like something that is basically manageable."[30]

DFID's Double Year End

14. The two systems of accounting means that DFID has two year ends, the end of December for reporting against the ODA target, and the end of March for reporting its spending against the control totals authorised by Parliament. The practical consequence is that has given DFID two year end peaks to meet the budgeting requirements of ODA and financial year.

24 NAO report paragraph 1.13

25 A sample of 12 DFID spending teams were reviewed, who together account for 50% of DFID's spending. A total of 14 options with spending over £10 million were reviewed, collectively accounting for £285 million spending. NAO report, paragraph 1.12, Appendix 5

26 NAO report, Appendix 5, pp 65-66

27 NAO report, paragraph 1.9

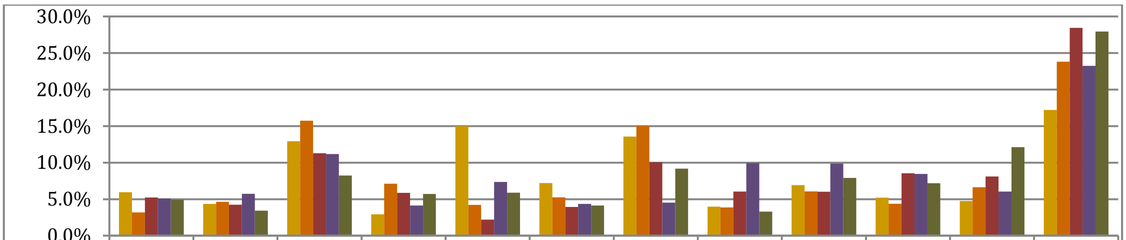
28 NAO report, paragraph 20

29 NAO report, paragraph 14

30 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q34. Richard Calvert similarly added: "Now we have reached 0.7% and we are into delivery of 0.7% at a broadly consistent level, there is a lot to be said, from a departmental management point of view, for keeping a steady budget." Q34

15. For many government departments, there is a peak in their spending profile at the end of the financial year in February and March. For DFID, the calendar year end peak in spending in November and December is more important. It is also growing in significance, as Figure 2 shows. By contrast parliamentary control totals for the financial year are becoming less significant for the profile of ODA spending.

Figure 2: Calendar year ODA spend by Months for 2009–2013



	January	February	March	April	May	June	July	August	September	October	November	December
2009	6.0%	4.3%	12.9%	2.9%	15.0%	7.2%	13.6%	4.0%	6.9%	5.2%	4.8%	17.2%
2010	3.2%	4.6%	15.7%	7.1%	4.2%	5.3%	15.1%	3.9%	6.1%	4.4%	6.6%	23.8%
2011	5.2%	4.3%	11.3%	5.9%	2.2%	3.9%	10.1%	6.0%	6.0%	8.5%	8.1%	28.4%
2012	5.1%	5.7%	11.2%	4.1%	7.4%	4.4%	4.5%	10.0%	9.9%	8.5%	6.1%	23.2%
2013	4.9%	3.4%	8.2%	5.7%	5.9%	4.1%	9.2%	3.3%	7.9%	7.2%	12.1%	28.0%

Source: NAO report, Figure 7, p 27[31]

16. In 2009, the financial year end peak (February and March spending) and the calendar year end peak (November and December spending) were roughly equivalent, accounting for 17.2% and 22% of the year's spending respectively. This relative significance has shifted year on year, such that by 2013 the calendar year end peak (40.1%) was almost four times larger than the financial year end (11.6%). This trend is likely to continue for 2014-15, as only 10% of DFID's budget had been left to cover the whole of the last 3 months. It should be noted that the difference here is the growth of calendar year end spending rather than an actual decline in DFID's spending at the financial year end. In absolute terms, £1.26 billion ODA was spent in February-March 2009, and £1.33 billion in February-March 2013. By contrast, the calendar year end peak had grown almost threefold, from £1.6 billion to £4.6 billion.

17. The operational significance of this is a gradual erosion of DFID's contingency in the first 3 months of each calendar year, and the last quarter of the financial year. DFID acknowledges this is a real challenge for 2014.[32] It also acknowledges that there are issues for it to investigate around why its bilateral aid is increasingly peaking towards year-end.[33]

31 The NAO figures exclude sums attributed by HM Treasury to DFID to reflect the UK's contribution to EU spending on aid, as DFID has no role in paying these sums.

32 "This is a challenge we absolutely accept. It is one we are grappling with at the moment. When we set the level of budget that we expected to deliver by the end of December, we looked in detail at all the significant payments projected for the first quarter of the 2015 calendar year. We went through every payment over £2 million with the teams to say, "What's this about? Is there enough contingency?" We looked with the humanitarian team at what flexibility we have, and it is tight in the first quarter of 2015; that is absolutely the case." Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q39

33 Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q38. See also: "When you strip all that out (promissory notes and humanitarian crises), there is a bit of a surge late in the year, and we are working on how we can deal with that better, but it is not as acute as it looks in the picture." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q38

18. Current practice carries the risk that low spending in the first three months of each year to meet financial year targets inevitably creates a subsequent boom in spending the following summer and autumn to catch up with calendar year targets. This has meant that over time, DFID is becoming increasingly a Department of autumnal spending. In 2009, spending September-December was proportionate for the year as a whole, accounting for approximately a third of ODA (34.1%). DFID's autumn spending has risen to approximately a half of ODA for the last three years. It reached 55.2% in 2013, and is likely to be more again in 2014. In simple terms, DFID is more likely to respond to events in the autumn, like the Ebola crisis in 2014 or Typhoon Haiyan in the Philippines in 2013. In the Spring, UK ODA is much less likely to be generous.

Options to Manage Better

19. The NAO suggested that one way of improving the management of ODA spending would be to calculate the target based on a 3-year rolling average. The 1970 UN resolution that developed countries should aim to achieve 0.7%, did not specify that this level should be achieved each year, which potentially allows the flexibility for the UK to achieve 0.7% over a longer time period.[34]

20. Other witnesses, like Adam Smith International, suggested: "While wider bands might be one solution, surely it would be better to stop worrying about calendar year spend and just ensure that financial year spend is relatively close to the 0.7% figure."[35] DFID's response would that this would make "marginal difference" to its operations:

> "Government Departments live within annual control totals and have done for as long as we can all remember. The idea of managing to year-ends and managing activity within annual control totals is not new. What managing against the 0.7% target has done is give us two points in the year when we need to manage our spend… It would make a marginal difference to managing to one year-end rather than two, but, to be honest, it is manageable under the current system, with that one proviso that what we cannot do is legislate for what happens after December" [36]

21. The NAO argued that DFID should mitigate peaks and troughs through better forecasting of its spending rather than adjusting its timing of payments to partners.[37] This approach tends not to lead to efficient decision making on resources.

22. The NAO found that DFID's 2013 forecasting was weak[38] for three main reasons:

- DFID began forecasting late: The NAO criticised the Department because teams began detailed profiling of their calendar year spending only in the Spring, four

34 NAO report paragraph 1.3

35 Adam Smith International Submission, paragraph 3.4

36 Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q32-Q35

37 NAO report, paragraph 1.25

38 NAO report, paragraph 1.27

months into the year, and central targets for teams spending were only set in May.[39] It was only through this detailed forecasting process that DFID identified that it was not on course to meet the 2013 ODA target.

- DFID’s forecasts were too optimistic: For the period May to October–until the November-December year end peak - actual spending was between 8% and 34% lower in each month than forecast.[40] DFID’s forecasts for 2013 needed to change over time–in part due to slippage in the programmes.[41] This was in part because DFID operates in complex contexts.
- DFID’s forecasts were not across a range to allow for uncertainty: The NAO suggested forecasting a range of outcomes (i.e. spending will be between A and B), which DFID is looking at introducing.[42] In contexts of uncertainty the incentives for budget holders with “point estimate” (i.e. single figure) forecasts is to slightly overestimate their needs, so that they have enough resources to cover planned activities, when in reality projects are often delayed or disrupted, and forecasts across a range allow budget holders to reflect this uncertainty[43] Otherwise single point estimates can tend to produce surprises, and reveal underspent budgets quite late.

23. The key concern, DFID stressed, should be whether it is paying in advance of need, or doing things that were poor value for money.

> What would be a matter of deep concern would be if, in order to hit the 0.7% target, we were either paying bills before they were due or we were choosing to do things that were poor value for money. It is really important for me to just make the point that the NAO report does not raise either of those things as a concern. What it says is—and it is right—that it is complicated for the Department to manage the finances and the finance team, which Richard supervises, has to work really hard at the two year-ends to make everything run smoothly.[44]

Promissory Notes

24. In 2013-14, DFID issued £1.9 billion of promissory notes, equivalent to almost a fifth (19%) of the Department’s ODA.[45] Promissory notes have been a reasonably consistent proportion of DFID’s total programme since 2009 (typically 17-19%, though were as much as 24% of DFID’s 2010-11 expenditure).Promissory notes have two benefits from HMG’s perspective, cashflow and flexibility. DFID told us:

39 NAO report, paragraphs 1.27, 1.10

40 NAO report, paragraph 1.28

41 NAO report, figure 6

42 NAO report, paragraph 1.29

43 NAO report, paragraphs 1.27-1.28

44 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q31

45 NAO report, paragraph 1.23

> Because the promissory note is just a firm commitment to pay, but not the transfer of the cash, it registers as expenditure, but the taxpayer does not foot the bill until it is drawn down over a period of years. That is actually quite a good way of creating flexibility.[46]

25. Under OECD DAC rules for measuring ODA, core funding to multilateral organisations via promissory notes count as ODA expenditure the moment the promise is issued, but do not have to be paid for until the cash is subsequently drawn down. These rules could create an incentive to provide core funding to multilateral organisations via promissory notes over other forms of development assistance, particularly in instances where DFID needs to increase spending quickly. DFID can increase recorded expenditure via promissory notes without the time needed for new projects to be designed and approved, as would be required for other types of spending. For instance, the NAO identified that DFID's core funding totalled £1.5 billion in December 2013, with most of this arising from DFID issuing promissory notes, in part due to DFID frontloading its three year commitment to the Global Fund to Fight Aids, Tuberculosis and Malaria and bringing forward into 2013 an issue of a promissory note to the World Bank.[47]

26. Promissory notes also largely avoid other public spending concerns. Because no payment is made at the time of recognition, promissory notes do not risk HM Treasury concerns about payments in advance of need (unnecessarily early payments which risk DFID breaking Treasury rules as set out in Managing Public Money) or auditor concerns about prepayments (payments for future work which should be counted as future expenditure)[48], or Value for Money (which reviews what has been achieved with public spending, typically once activities are underway). By contrast, all of these concerns would be used to scrutinise in particular last minute increases in bilateral aid expenditure.

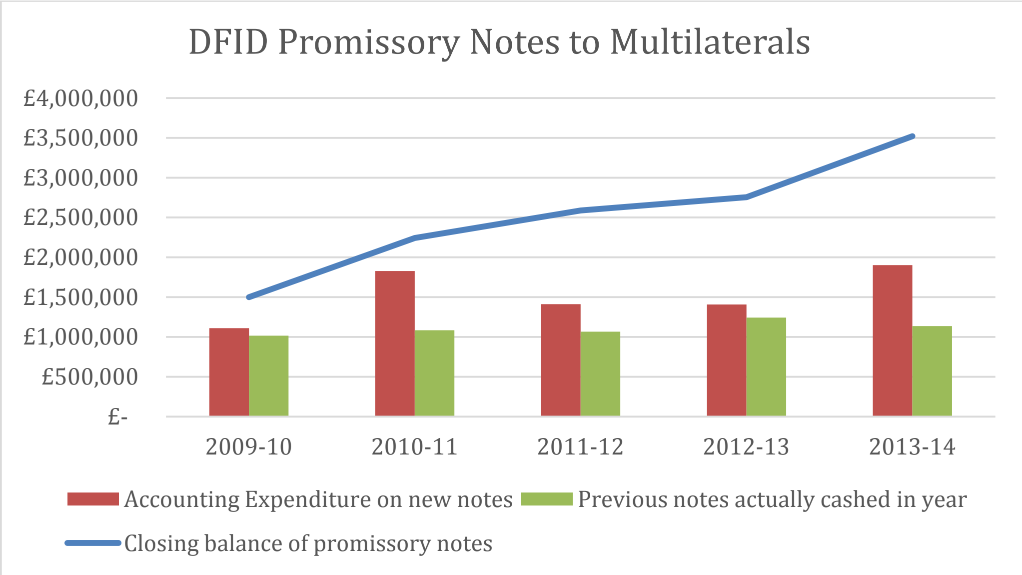
27. Figure 3 shows DFID's increasing issue of promissory notes over the Parliament as it has grown to meet the ODA target. Over this Parliament, DFID has issued significantly more promissory notes than multilateral organisations have cashed in every year. Partly, this reflects a growing programme, meaning that notes issued currently are typically larger than those that were issued previously, and that are now being cashed. For instance, in 2013-14, £0.8 billion more (68%) notes were issued (£1.9 billion) than were actually cashed (£1.1 billion). Yet uncashed promissory notes as a proportion of DFID's total programme have gradually increased over the past 5 years, from 23% in 2009-10 to 34% in 2011-12, though they have remained constant between 34-36% since. Over the past 5 years, DFID has recognised in its accounts a total of £2.1 billion more expenditure than cash actually given to multilateral organisations.

46 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q38

47 NAO report. Figure 8 and paragraph 1.33

48 As the NAO report notes, the financial audit in 2013-14 did find one instance of bilateral aid payments that should have actually been accounted for as a prepayment. See: NAO report paragraph 1.35

Figure 3: DFID Promissory Notes to Multilateral organisations



Source: Analysis of DFID Accounts 2009-10 to 2013-14, Movement in Promissory Note Payables (Notes 14.2, 17.2, 19.1)

28. Over time this has led to the balance of outstanding promissory notes issued to multilateral organisations more than doubling from £1.5 billion in March 2010 to £3.7 billion in March 2014. Though part of this may reflect a timelag in a growing programme, Figure 3 shows that the amount of DFID promissory notes actually cashed by multilateral organisations in the past 5 years has been reasonably stable, varying between £1-£1.2 billion. While larger sums may be cashed in the future, based on the average use by multilateral organisations over the previous 5 years, the balance of already promised expenditure would cover multilateral organisations' average usage for 3 years 2 months. In March 2010 this outstanding balance was only equivalent to 1 year 4 months average usage. While this average obviously includes different balances for different institutions, the NAO analysist of the use of particular promissory notes found that there was typically a timelag of two years between issuing promissory notes and them actually being sent to the bank account of the multilateral concerned.[49] There is a greater lag still until the money is actually used in development projects. DFID acknowledged to the Committee that this increasing timelag is in part deliberate–DFID has moved away from making payments according to a fixed schedule to paying according to the institutions' liquidity and actual cash needs.[50]

29. Promissory notes are the standard international mechanism for providing core funding to some multilateral organisations, rather than a specific funding choice by DFID. Yet DFID could provide significantly more transparency on how promissory notes are actually

49 NAO report, paragraph 1.24

50 "The cash drawdown is basically determined according to the liquidity needs of the institution, which is different from the commitment authority. They are cash needs. What we have been trying to do, over recent years, is drive down the liquidity in lots of these institutions, because we thought they had more liquidity than they needed, so we have been extending the period over which, on average, promissory notes are drawn down. We have also slightly changed the terms of some of the promissory notes we have deposited. They used to be all fixed drawdowns; we have now tied them more to liquidity needs. In that sense as well, we have been tightening up the system." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q40

used, and particularly on the considerable timelags involved between when this expenditure is recorded and when it is actually used for the benefit of the poor. DFID's annual report and accounts currently do not make clear the ages of all the different promissory notes uncashed at year end, nor the profile of when these are expected to be cashed. Both would allow the taxpayer to understand better the ongoing build up in the balance of uncashed promissory notes.

Non-DFID ODA

30. Non-DFID ODA has risen 50% since 2009 and now accounts for £1.4 billion or 12% of all ODA spending, although non-DFID ODA has remained a reasonably constant proportion of total ODA.[51] The three largest providers in 2013 were the Department of Energy and Climate Change (DECC) (3.6%, £412 million), the Foreign and Commonwealth Office (FCO) (2.6%, £295 million) and the cross-governmental conflict pool (1.6%, £184 million).[52] This growth requires DFID to consider increasingly the cross-government dimensions of aid, and the consequences of other Departments ODA on poverty.

Figure 4: Overview of DFID and non-DFID ODA

Overview of the Composition of 2013 ODA

Both DFID ODA and non-Department ODA is made up of a mix of bilateral aid and multilateral aid

	Bilateral ODA		Multilateral ODA		Bilateral and multilateral ODA
	£million	% of total ODA	£million	% of total ODA	
Department ODA	5,799	50.6%	4,264	37.2%	10,063
Non-Department ODA	946	8.3%	453	4.0%	1,399
Total	6,745	58.8%	4,717	41.2%	11,462

Source: NAO report on Managing the Overseas Development Assistance target (Figure 16)

31. A significant part of this growth has been due to the growth of the UK's contributions to the International Climate Fund, an increase in FCO ODA, and the expansion of the cross-departmental Conflict Pool. The Conflict Pool will shortly evolve into the Conflict, Stability and Security Fund (CSSF) which will have an increased budget for work in Fragile and Conflict Affected states.

51 ICAI, A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID, Report 41, February 2015, paragraph 2.11

52 Development Initiatives Submission, paragraph 6, See also: NAO report, Figure 18, p. 54

32. There are, however, concerns about the focus of non-DFID aid, and especially of the new Conflict, Stability and Security Fund. Witnesses suggested that non-DFID spending is not as focussed on poverty alleviation. Bond and the UK Aid Network noted that all UK policies and departments affecting development should be required to meet as stringent a development and poverty eradication tests as aid projects do including ownership, transparency and accountability, results and inclusiveness.[53] Development Initiatives stated that whereas the "majority (83%) of DFID aid that went to countries went to those with high extreme poverty rates, less than half (43%) of aid from other UK departments went to such countries".[54] Development Initiatives argues that "if DFID's poverty reduction mandate was extended to other departments their contributions could be much more poverty focused."[55] On the other hand, ICAI found no evidence that the increasing amount of non-DFID ODA had led to a loss of pro-poor orientation [56]

33. Bond noted that the non-DFID ODA was significantly less transparent than DFID spending, scoring well below 50% on the aid transparency index

> Much ODA spending by non-DFID departments remains obscure and relatively unclear in terms of strategy, objectives and outcomes. DFID has led the way on aid transparency, yet other ODA spending departments have not stepped up to the example set by DFID. In *Publish What You Fund's 2014 Aid Transparency Index* DFID scored 88.3%, whilst the FCO and the MOD lagged behind scoring 35% and 9% respectively. It is not clear how DFID ensures that ODA managed by other departments is compliant with the International Development Act 2002.[57]

34. Bond called for DFID to continue to provide leadership in this area, with other branches of government and its contractors.[58] Our recent 'Beyond Aid' report recommended that DFID improve its reporting on whole of government ('policy coherence for development') approaches in line with the 2006 International Development

53 Bond and UK Aid Network Submission, Section F

54 Development Initiatives Submission, paragraph 7

55 "The International Development Act (2002) requires that the Secretary of State be satisfied that provision of aid "is likely to contribute to a reduction in poverty." … The UK's other aid-providing departments … are not required to comply with the Act's provisions. They need only meet the standard OECD criterion that the main objective of ODA be the "economic development and welfare" of developing countries. While aid from other departments is subject to the Independent Commission for Aid Impact, those departments are not bound by DFID's results framework. Such aid may – but is not legally required to – be poverty reducing. As the research above shows, this appears to mean it is less likely to be so." Development Initiatives Submission, paragraph 8

56 ICAI, A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID, Report 41, February 2015, paragraph 2.11

57 Bond and UK Aid Network Submission, Section F. Similarly, Development Initiatives noted that: "Publish What You Fund scored the MOD as 'very poor', ranking 42 out of the 50 bilateral sources of aid assessed in its 2014 Aid Transparency Index report. By comparison DFID ranks 2 and the FCO ranks 21; the US Department of Defense, the only other defence organisation included in the Index, ranks 23." Development Initiatives Submission, paragraph 9

58 Bond noted that: "Out of all the organisations worldwide who have signed up to the International Aid Transparency Initiative (IATI), more than 57% were UK organisations and nearly all were NGOs. DFID should encourage its contractors to also commit to aid transparency." Bond and UK Aid Network Submission, Section J

(Reporting and Transparency) Act.[59] Similarly, ICAI's preliminary investigation of non-DFID ODA concluded:

> While UK ODA data are published in various forms, there is no single place where stakeholders can find a clear explanation of the amounts and objectives of non-DFID ODA. This feeds concerns among stakeholders about its appropriateness and quality.[60]

35. ICAI also note that DFID has no formal mandate to co-ordinate or control the quality of ODA spent by other departments, beyond ensuring accurate reporting of ODA and achieving the 0.7% target.[61] DFID confessed to us that it has struggled to have a clear view of non-DFID ODA. Centrally, poor forecasting for non-DFID ODA can create significant uncertainties for meeting the overall target. For instance, in June 2014, DFID was predicting that 2014 ODA could be around £800 million short of the level needed to achieve 0.7%, with half of this shortfall due to non-DFID ODA underspending.[62] For country offices, the lack of a clear view of non-DFID ODA creates strains.[63] The One HMG initiative should help in this area.[64] DFID is working to improve coordination with different Departments, though this has not yet begun in all areas.[65]

36. ICAI's key assessment is the need for greater accountability for non-DFID ODA, and in particular the Conflict, Stability and Security Fund:

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59 Beyond Aid, paragraph 44

60 ICAI, A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID, Report 41, February 2015, Executive Summary

61 ICAI, A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID, Report 41, February 2015, paragraph 2.63

62 Half of the forecast shortfall was £400 million in non-Department-managed ODA against the level assumed when the Department's 2014-15 budget was set by HM Treasury.

63 "When you come then to the country level, a lot of the ODA that is spent by the Government Departments is not spent in the core DFID countries. A lot of it is spent in other countries, so we will not have the same oversight there. Where we do, I have a lot of sympathy for your view that we need a good sense of it and a good grip." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q25

64 "One of the other things that goes back to this question of working across Government is the efforts at country level, through the One HMG programme, to make sure that all the Government agencies and Departments represented in a particular country are working together, not just on the nuts and bolts of corporate services, but on a clear country strategy and using joint teams. I am sure that this is something that you start to pick up in your country visits, but that country-level work is just as important as getting the joined-up policy-making in Whitehall." Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q55

65 Mark Lowcock noted work on the CSSF, the International Climate Fund, and with DECC and the Home Office, though not yet the FCO. "Certainly, we have had quite energetic processes, for example, on the Conflict, Security and Stability Fund, the first year of which is about to begin on 1 April, having taken over from the Conflict Pool with £1 billion in that pot. It is very energetic, cross-Government, priority setting, resource-allocation setting, with permanent secretary collective supervision of the choices being made and engagement with the National Security Council on whether they are the right choices. That is a really big pot. Likewise, we have a quite well governed process, effective and energetic process around the International Climate Fund, where we and DECC are largely the main Departments. We have done one-off special exercises with the MOD and the Home Office on ODA in their budgets, looking at what the priorities are, how resources are spent and how we can work together better. There is a forward agenda with the FCO, whose ODA budgets have grown quite significantly, where the Secretary of State is keen for us to do some work on that as well. Those budgets have grown. As a share, they are still quite small of the total ODA, but they have grown and they are quite significant. It matters that it is well spent and that we have a proper overview of it, so I would be interested to see what the external assessment of that is." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q25

> ODA is just a statistical category, there is no overall accountability for UK ODA... Departmental activities reported as ODA had no particular scrutiny process, other than those applying to the department's budget as a whole. ODA expenditure is not separately identified in the accounts of the individual departments. There is, therefore, no parliamentary oversight of UK ODA as a category. In particular, parliamentary oversight of expenditure under the new Conflict, Stability and Security Fund, which is the successor to the Conflict Pool, is shared between the Foreign Affairs Committee, the Defence Committee, the International Development Committee and potentially others, with no single committee having oversight of the instrument as a whole.[66]

DFID echoed this desire for external scrutiny of the Conflict, Stability and Security Fund to help address these criticisms:

> The role of the shared pool has grown, in fact… I have to say, personally, that this is an area where I would welcome more external scrutiny…. I have asked my head of internal audit to work with his colleagues in the Foreign Office and the MOD to do a collective piece of work, before we get up and running properly with the new articulation of the Conflict Pool, and I would really welcome others having a look at it as well.[67]

Conclusion and Recommendations

37. **The Committee welcomes the fact that the UK is the largest economy ever to have reached the target of 0.7% GNI as Official Development Assistance, making it now the second largest provider of ODA in the world. Key to achieving this growth has been DFID's preparation of a pipeline of projects. DFID has to meet a double target: the 0.7% target in the calendar year and then ensuring that its budget is spent by the end of the financial year. This is demanding. DFID has in recent years spent a large share of its budget in November and December with low spending from January to March. There are concerns that this leads to decisions which are less than cost-effective. The NAO identified a number of actions DFID could take, which we support.** ***We recommend that DFID:***

- ***Improve its forecasting, in particular begin making detailed forecasts at or before the beginning of the calendar year rather than in May as it does at present; and provide forecasts for a range of possible outcomes.***
- ***work to smooth the profile of its spending and assess the desirability of a target of spending no more than 25% of annual bilateral spending in any two months; and***
- ***examine whether high levels of spending in the last two months of the year is providing value for money.***

66 ICAI, A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID, Report 41, February 2015, paragraphs 3.8-3.9

67 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q58

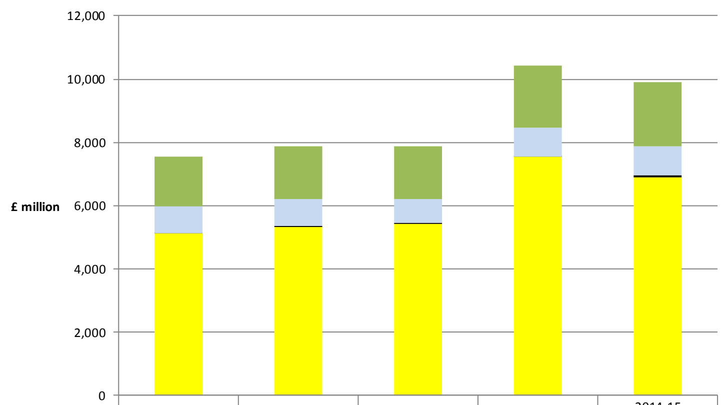
38. **We are concerned about two aspects of non-DFID ODA: Departments other than DFID are poor at forecasting ODA.** ***We recommend that DFID work with other Departments to improve their forecasting.*** The Permanent Secretary told us he would welcome an investigation of the roles and responsibilities of the Departments involved in the Conflict, Stability and Security Fund. ***We recommend that the NAO undertake an inquiry into the Conflict, Stability and Security Fund once it is fully operational.***

39. **We are concerned that DFID's accounting for promissory notes encourages it to employ multilateral organisations. Promissory notes are counted as expenditure on average two years before they are cashed and it could be longer before the multilateral organisation spends the money.** ***We recommend that the NAO review the use of promissory notes. We further recommend that DFID assess whether the issuing of promissory notes in 2013 and 2014 has encouraged the overuse of multilateral organisations, and provide in the financial review section of its annual report an analysis of how long promissory notes have been outstanding and how long before they are due to be cashed.***

4 Spending trends

40. As figure 5 shows, DFID's expenditure in 2013-14 has seen a dramatic increase of around a third in the Department's budget, an increase of £2.6 billion. This increase accounts for the majority of the £2,660 million increase in ODA spending from £8,802 million in 2012 to £11,462 million in 2013.

Figure 5: Increase in the Department's Budget in 2013–14



	2010-11 Final budget	2011-12 Final budget	2012-13 Final budget	2013-14 Final budget	2014-15 Main Supply Estimate
Total budget	7,545	7,867	7,862	10,439	9,913
Capital budget	1,562	1,658	1,660	1,969	2,043
Budget to cover EU aid spend attributed to DFID	845	868	757	910	927
Conflict Pool	20	19	23	27	39
Resource budget	5,118	5,322	5,421	7,533	6,904

Source: NAO report, Figure 9, p. 34

41. Total ODA for 2014 is likely to increase to £11.8 billion, and DFID has again asked for an increase in its 2014-15 budget.[68] Thus the 2014-15 figure will almost certainly be higher than the amount listed in Figure 5, which refers only to DFID's initial supply estimate approved by Parliament rather than DFID's final budget. The Springfield Centre suggests this growth in ODA's and DFID's significance will continue as the UK economy grows; to meet the target of 0.7% of GNI, ODA spending will reach £12.4 billion in 2015, a three-fold increase in real terms over the ODA level in 2000.[69]

42. Many witnesses welcomed this increase in spending:

> We are proud that the UK is the first G7 country to reach the 0.7% of GNI ODA target and one of only four countries to meet the target in 2013. While recognising the challenges of such a substantial increase in one year, DFID had developed a strong pipeline of projects with the vast majority of aid programmed several years into the future. We would encourage DFID to

68 NAO Report, paragraph 1.44

69 Springfield Centre submission, paragraph 2

> continue this as it also has the benefit of strengthening aid predictability for partner countries.[70]

DFID noted that the DAC peer review report pointed out that DFID had managed the increase in spending relatively well. [71]

43. However, others noted that DFID's increased spending at a time when other Department's budgets were static or falling shed a spotlight on DFID which meant that UK aid was more closely politically managed.[72]

44. This chapter explores how its increased budget has affected the focus of DFID's spending with particular reference to its bilateral programmes, centrally managed programmes, multilateral spending and humanitarian assistance.

Bilateral Programmes

45. Witnesses suggested that the priority for DFID spending should be the country-based bilateral programme, as "this is where the highest quality and greatest impact can be achieved."[73]

46. The NAO noted that while in absolute terms bilateral spending has increased, the proportion of ODA managed by DFID's 28 priority country offices has fallen from 42% in 2011 to 36% in 2013.[74] As it grows, DFID is becoming more centralised, despite DFID's ambition following the Bilateral Aid Review is to better target its bilateral aid programme on country contexts. Approximately a third of DFID's bilateral ODA in 2013 (£2.1 billion of centrally managed bilateral programmes) cannot be associated with a particular country or region, either because the geographical beneficiary or split between countries is unknown.[75]

70 Bond and UK Aid Network submission, Section G

71 "DFID has planned well how to strengthen capabilities and systems to disburse the scaled-up budget efficiently and effectively. It anticipates future needs to make sure the Department is fit for purpose, in both the short and longer term. This strategic approach has translated into continuous improvement processes, which have enabled DFID to maintain its high profile and reputation." It is absolutely not our position that we have got everything right. I am sure we are continuing to learn lessons all the way through, as we manage this larger budget, but it is fair to observe that outsiders who have looked at this have basically said that we have done quite a good job in managing the scale-up and what we need to do is keep doing a good job." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q41

72 "This extraordinary increase in aid budget is happening in the much-publicised context of sweeping budget cuts in almost all other areas of government. As the cuts bite into the economic and social fabric of the UK, defending the need for international aid has become a sensitive domestic political issue. Aid has become high profile. In response, the government is increasing its control of the programming UK aid. The UK Secretary of State for International Development, now makes direct spending decisions for all supplier contracts above £1 million, and for all business cases above £5 million (far lower than the previous £40 million threshold)… Increased politicisation and short-termism appears to have increased the desire for UK aid to be as visible as possible… Inevitably, as it has become more political and prominent, DFID has become more concerned with the superficial and saleable, with what aid looks like to the government's key audiences." Springfield Centre submission, paragraphs 5, 14

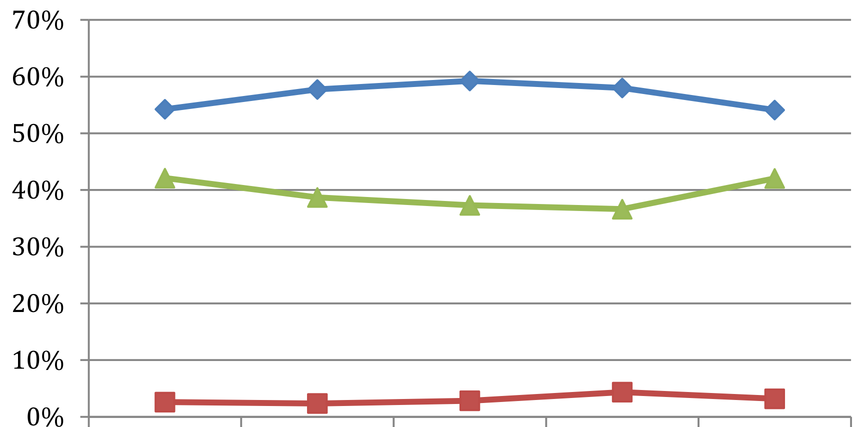
73 Adam Smith International Submission, paragraph 2.21

74 NAO report, paragraph 2.27

75 NAO report, Appendix 4, paragraph 16

47. Among bilateral aid where a country or region is specified, Figure 6 shows there has been a 10% swing since 2011 between the proportion of aid going to Africa (down from 59.2% to 54.1%) and Asia (up from 37.3% to 42.1%). In absolute terms, DFID bilateral ODA to Africa increased from £2.1 billion to £2.5 billion a year between 2011 and 2013, while ODA to Asia increased from £1.3 billion to £2.0 billion.[76] Proportionately, ODA to Africa has gone from being 60% to 30% larger than ODA to Asia, and the proportionate share of country and region specific bilateral ODA going to Africa has fallen to its lowest level since 2009.

Figure 6: Share of country and region specific bilateral ODA 2009–2013 by region



	2009	2010	2011	2012	2013
Africa	54.3%	57.7%	59.2%	58.0%	54.1%
Americas	2.6%	2.4%	2.8%	4.4%	3.2%
Asia	42.1%	38.7%	37.3%	36.6%	42.1%

Source: NAO Report, Figure 24, p 62

48. Non-DFID has even less of a focus on Africa. In 2013 non-Departmental ODA for Asia was £265 million, in fact almost 60% greater than the £168 million non-Departmental ODA for Africa.[77] Also some witnesses acknowledged that DFID's aid is relatively well targeted compared to many bilateral donors, with the choices of priority countries reflecting the need and opportunity for impact.[78]

49. Witnesses expressed concerns that DFID was deprioritising Africa and that this would have a negative impact on global poverty reduction. Africa is where many of the Least Developed Countries are situated and UK ODA going to Least Developed Countries has declined from 75% in 2010 to 61% in 2013. [79] Bond and the UK Aid Network argued:

76 See: NAO Report, Appendix 4, paragraph 18

77 NAO report, Appendix 4, figure 23

78 Water Aid submission, paragraph 11

79 "UK aid could be better targeted to where the poorest people are in order to increase its impact on ending poverty. Ending poverty by 2030 will require an increasing focus on Africa… Over half (54%) of country-allocable aid from the UK went to Africa in 2013. Of DFID's 28 priority countries, 17 are in sub-Saharan Africa (excluding South Africa)… DFID's aid to Africa remains 14 times the size of other UK departments' aid to the continent. But these other government departments give less than a third of their country-allocable aid to Africa (31%)." Development Initiatives Submission, paragraph 5; See also: NAO report, Appendix 4, paragraph 19, p. 60 and Figure 25. The NAO note that this is in large part because three of DFID's priority countries – Nigeria, Ghana and Pakistan – were reclassified as Lower Middle Income Countries in 2011

> The relative decline in aid allocation and spending to the poorest countries, Least Developed Countries (LDCs) and Africa in particular, remains a cause for concern particularly given a similar trend at the global level. OECD DAC surveys of forward spending plans projects a shift in overall global allocation towards Middle Income Countries (MICs) in Asia and away from Sub-Saharan Africa where two thirds of countries will receive less aid in 2017 than in 2014. This trend raises concerns that aid allocation is being increasingly driven by UK economic concerns at the expense of delivering sustainable, long-term poverty reduction and development.[80]

50. DFID's rationale for its shifting focus is to target MDG deficits:

> There are very few other development organisations, if any, that have as strong a correlation between MDG need and resource allocation. Indeed, we have a very strong focus on places with a very high MDG need—education in Pakistan, for example, or lots of things in Nigeria—that are largely ignored by many other donors. Lots of things we do on the MDG front are compensating for the less optimal resource allocation, we think, from other providers of aid.[81]

The 2014 DAC peer review agreed that DFID does have a strong focus on achieving the MDGs.[82] However, witnesses expressed concerns about the perceived shift in priorities in terms of its MDG coverage. Marie Stopes International stressed that spending in key MDG areas like reproductive health was declining even though the relevant MDGs were increasingly off track,[83] though DFID noted this was in the context of a large increase in spending over the period 2010–2012.[84]

51. To ensure its MDG coverage, witnesses also called for DFID to change the way it targeted people's needs, and move away from country average incomes to focus on where

80 Bond and UK Aid Network submission, Section E

81 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q21

82 "The UK is doing an excellent job of protecting the poverty reduction focus of the development cooperation programme, anchored in the International Development Act… The UK's commitment to achieving the MDGs is matched by its geographic and sector allocations, with a clear focus on low income countries, fragile states, and social infrastructure and services." OECD Development Cooperation Peer Reviews, United Kingdom 2014, Executive Summary, Sections 2-3, pp. 16-17

83 "We are concerned by the reduction in spending on population/reproductive health, which decreased from £424.5 million in 2012 to £373 million in 2013. This is particularly concerning given the lack of global progress towards meeting MDG 5 (To improve maternal health). Both indicators under this goal are off track (Achieving universal access to reproductive health and reducing maternal mortality by three quarters)… It is concerning that this trend appears to be continuing, with early indications of health sector spend decreasing from 2013/14 to 2014/15 and the amount spent on population/ reproductive health also continuing to fall." Marie Stopes International submission, paragraph 3

84 DFID note: "The figures quoted by Marie Stopes International are accurate in that spend on population/reproductive health decreased from £425 million in 2012 to £330 million in 2013. This is in the context, however, of a large total spend on population/reproductive health of almost £1.5 billion between 2010 and 2013. DFID spending on other health (including basic health) also increased between 2012 and 2013 from £651.2 million to £966.6 million (which will also contribute to the delivery of population and reproductive health services). Figures for spending 2014/15 are not yet publically available." DFID Additional Submission

poor people actually live.[85] DFID agreed that the split between low income and middle income was no longer useful for assessing where to target aid, and that it would be developing a new category of measurement based around classifying areas of MDG need.[86]

Budget Support

52. DFID's budget support to developing countries increased in 2013, after a long term decline over a number of years. Some witnesses had expressed concerns over the impact of this decline on Least Developed Countries like Malawi.[87]

Table 1: DFID Budgetary Support

Budget Support

	2009/10	2010/11	2011/12	2012/13	2013/14
Poverty Reduction Budget Support	634,101	643,671	536,662	410,133	567,073
of which					
General Budget Support	*383,150*	*360,467*	*242,290*	*167,343*	*106,600*
Sector Budget Support	*250,951*	*283,204*	*294,372*	*242,790*	*460,474*
Total DFID Bilateral Programme	**3,958,263**	**4,248,018**	**4,204,114**	**4,169,389**	**5,524,054**

Source: Table 1–DFID GPEX statistics 2013-14

Table 1 shows that budget support increased by 38% between 2012-13 to 2013-14, from £410 million to £567 million. The NAO report identifies that a significant proportion of 2013 budget support, £324 million or 54%, was issued in either November or December,88 much of this was pre-planned but not all.

53. The increase in 2013-14 budget support was broadly in line with the increase in bilateral ODA, such that budget support was approximately 10% of bilateral aid in 2012 and 2013. However, budget support was a declining proportion of total ODA. Similarly, in absolute terms 2013-14 budgetary support remained lower than the support provided by the UK was in either 2010-11 or 2009-10.

54. The broad trend in DFID's approach to budget support has been a shift in allocation from general budget support to sector specific support, in line with its increasing results focus. In 2013 general budget support was only 19% of all budget support, down from 60% in 2009.

55. In 2013-14 the regional focus of DFID's budget support was Africa. For sector budget support £302 million was spent in Africa and £158 million in Asia. For general budget

85 "Income groups are too simplistic a basis on which to make allocation decisions… Allocation decisions should not be based on average income or the income group status of a country, something which the World Bank – which produces these analytical categories – has expressed concerns about. Allocation should be based on where poor people are, on the depth of their poverty, their vulnerability and the fragility of their environment, the domestic capacity of their governments to address poverty and their access to wider international resources (such as foreign direct investment), as well as prospects for future pro-poor development." Development Initiatives Submission, paragraph 4

86 "We decreasingly feel that the category "low-income/middle-income" is a good representation of where the MDG burden is, because you can be just above the threshold and have a massive MDG problem, which is the characteristic of one example you have just given. I have given the examples of Pakistan and Nigeria. If you really focus on the MDGs, you need to look country by country, rather than by income classification." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q23

87 Scotland-Malawi Partnership submission, paragraphs 3.1-3.5

88 NAO report figure 28, p. 68

support, all £106 million was spent in Africa.[89] Two sectors accounted for over 90% of sector budget support, education (£228 million) and health (£199 million). Both sectors saw an increase in their total budget support compared to previous years. We noted in our report on Health System Strengthening and saw in our recent visit to Nepal the advantages of health sector budget support.[90] Three sectors accounted the majority of the rather smaller general budget support: education (£30 million), economic (£27 million), and government and civil society (£25 million).

Spending on Multilateral organisations

56. DFID has increased its total funding to multilateral organisations. In 2013 the Department gave £6,323 million (63% of its total ODA) to multilateral organisations, including both multilateral ODA and multilateral organisations' share of bilateral ODA.[91] The largest recipients of this aid were: The EU (£1,219 million), the World Bank (£1,210 million), and the Global Fund to Fight Aids, Tuberculosis and Malaria (£543 million).[92] As ICAI notes, this level of funding has made them key delivery partners:

> "As the aid budget has increased, DFID has become increasingly reliant on multilateral organisations to deliver its aid. Around 47% of the UK aid budget goes towards multilateral aid and [additionally] a significant proportion of the bilateral programme is also entrusted to multilateral partners."[93]

57. There was a particularly sharp increase in the core funding the Department gave multilateral organisations in 2013, which increased by 43% from 2012 funding (from £2,523 million to £3,618 million).[94] It meant that core funding to multilateral organisations accounted for 36% of DFID's total ODA in 2013. However, this increase is also a longer trend. Between 2009 and 2013 multilateral ODA increased by almost 90% from £2,497 million to £4,717 million; while total ODA increased by just under 60% (from £7,301 million to £11,462 million).[95]

58. As Table 2 shows, DFID is now the largest provider of multilateral ODA in the world. This has not been a declared policy, but seems in part a consequence of the constraints DFID has worked under and the way it has worked around them. In 2013, the UK gave almost 50% more in multilateral ODA than any other country. Only three other donors (USA, £3,257 million; Germany, £3,119 million; France, £2,936 million) provided more than £2 billion in multilateral ODA. For the USA and Germany, multilateral ODA forms a

89 Table 6 – DFID GPEX statistics 2013-14

90 IDC, Strengthening Health Systems in Developing Countries, Fifth Report of Session 2014-15, September 2014

91 NAO Report, p 51, Appendix 4, paragraph 5

92 NAO report, Appendix 4, Figure 20, page 56

93 ICAI submission, paragraph 3.4

94 NAO Report, Figure 12

95 NAO report, appendix 4, Figure 19, page 55

smaller part of their total ODA contribution (16.1% and 34.7% respectively) than it does for the UK.[96]

Table 2: Comparison of 2013 ODA from DAC Donors

DAC Country	Bilateral ODA £m	Multilateral ODA £m	Total ODA £m
USA	16,919.5	3,256.8	20,176.3
United Kingdom	6,744.5	4,717.3	11,461.8
Germany	5,873.9	3,118.5	8,992.4
Japan	5,637.5	1,900.9	7,538.4
France	4,340.0	2,936.0	7,276.1
Sweden	2,514.0	1,215.7	3,729.6
Norway	2,760.4	809.4	3,569.8
Netherlands	2,307.9	1,168.5	3,476.4
Canada	2,264.6	876.5	3,141.2
Australia	2,666.9	435.8	3,102.7
Italy	430.6	1,649.8	2,080.4
Switzerland	1,612.1	433.2	2,045.4
Denmark	1,372.0	501.1	1,873.0
Belgium	841.3	617.8	1,459.1
Spain	495.4	910.9	1,406.3
Korea	830.7	284.5	1,115.2
Finland	524.3	393.8	918.1
Austria	344.5	404.8	749.4
Ireland	348.1	177.6	525.7
Portugal	189.4	120.2	309.6
Poland	74.9	228.4	303.4
New Zealand	224.2	68.3	292.5
Luxembourg	191.1	83.5	274.6
Greece	61.8	133.2	195.1
Czech Republic	36.5	98.4	134.9
Slovak Republic	10.3	44.3	54.6
Slovenia	13.2	26.2	39.4
Iceland	19.0	3.5	22.5
TOTAL	59,648.85	26,615.11	86,263.96

Source: DFID Statistics on International Development, Table C3: Provisional Net ODA from DAC Donors, 2013 (£ millions)

59. The Department told us that it focused the increase in spending on the best performing multilateral organisations, and that in future it expects the proportion of core funding to multilateral organisations to stay static.[97]

60. There has also been an increase in the proportion of DFID's bilateral spending that is spent via multilateral organisations. Last year, the Department told the Committee the amount of bilateral spending through multilateral organisations in 2012–13 was falling,[98] In fact, in 2013, the Department gave £5,799 million bilateral aid. Out of this, £2,059 million (36%) was bilateral aid to multilateral organisations to undertake programmes in a specific country or sector, an increase of over a third (£557 million) on 2012.[99] A third of this bilateral aid spent via multilateral organisations (£681 million) was spent in November

96 Note France's multilateral ODA constitutes 40.4% of its total ODA contribution, more comparable to the UK's contribution (41.2%). Source: Statistics on International Development Tables C3: Provisional Net ODA from DAC Donors, 2013 (£ millions); Table C5: Bilateral and Multilateral ODA from DAC Donors as a Proportion of Provisional Net ODA, 2013, SID 2014.

97 "We focus the resources, particularly the increased resources, on the good-performing institutions to maximise the development impact. The proportion of core funding I think will stay pretty static." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q13

98 "Last year, you expressed some concern to us about whether we do too much of what in the jargon is called multi bi, using a multilateral partner to deliver a bilateral programme. We have reduced the amount we have done in the last year, so that there is more competition from different suppliers or partners to deliver programmes for us." Committee Report, *Department for International Development's Performance in 2012-2013: the Departmental Annual Report 2012-2013, Tenth Report of Session 2012–13,* HC 693, para 32

99 See: NAO Report, Figure 16, p 51, and Appendix 4, p 51 para 5

or December 2013.[100] The PAC has expressed concern about the likely increase in funding for multilateral organisations due to the Departments' lack of capacity.[101] The DAC Peer Review also expressed concerns that the UK needs to be more strategic and coherent between when it uses multilateral organisations and how they best complement its bilateral programme.[102]

Centrally Managed Programmes

61. DFID has five types of centrally managed programmes:

- Programmes covered by the Multilateral Aid Review, and those managed by Global Funds Department. For example, DFID's multi-year Voluntary Core Funding Support to the United Nations Children's Fund (UNICEF) and the DIME programme using global World Bank Trust funds to provide impact evaluations.
- Centrally organised research from DFID's two regional research hubs in East Africa and South Asia
- The International Climate Fund which includes some centrally managed programmes like the Climate Public Private Partnership (CP3) which invests in low-carbon development projects in developing countries, and the global Water security programme.
- Regional funding and departments that cover action in a number of countries. For example, the Comprehensive Africa Agriculture and Health: Africa Regional Malaria Programme
- Other central programmes managed by central policy teams focused on other global issues, such as the Girls Education Challenge[103]

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100 NAO Report, Appendix 6, Figure 28, page 68

101 In 2011, the Committee of Public Accounts warned that the Department might increase its multilateral aid programme because it did not have the capacity to spend its increased budget through its own bilateral programmes. The Committee said the Department must be able to demonstrate that any increase in funding to multilateral organisations represented better value for money than bilateral alternatives. See: House of Commons Committee of Public Accounts, DfID Financial Management, Fifty-second Report of Session 2010–12, HC 1398, October 2011, page 5.

102 "It is not clear whether the overall portfolio of UK multilateral aid makes the best use of the expertise of international organisations, and is complementary to the bilateral programme. The absence of a multilateral strategy explaining the value and purposes of providing assistance through multilateral organisations leads to a lack of consistency in how DFID country offices engage with these organisations and risks hampering the effectiveness of the UK's approach." OECD Development Cooperation Peer Reviews, United Kingdom 2014, Executive Summary, Section 2, The United Kingdom vision and policies for development cooperation, p. 16

103 Other central programmes managed by various parts of DFID includes: (i) Pan-country programmes delivering 'thematic' Ministerial commitments (e.g. family planning, and Girls Education Challenge) (ii) Delivering specific results in a number of locations where specialist knowledge or economies of scale can be achieved (e.g. on democracy and governance, action on polio eradication, Global Mine Action). (iii) Shaping the international agenda and on partnerships that deliver in third countries (e.g. Emerging Powers) (iv) Central support to civil society through partnership agreements and challenge funds. DFID negotiates and provides core funding to 40 NGOs through programme partnership agreements. In addition, the Global Poverty Action Fund funds proposals from civil society that respond to DFID priorities. See: DFID submission

62. Table 3 shows that spending via centrally managed programmes has increased by almost £2 billion in 2013-14, such that centrally managed programmes accounted for £5.7 billion of DFID's spending in 2013-14–well over half its budget. It also shows that centrally managed programmes have increased in recent years, both bilateral and multilateral.

Table 3: Spending on Centrally Managed Programmes

Spending £million	2010-11	2011-12	2012-13	2013-14
Bilateral Centrally Managed Programmes	1,386	1,267	1,350	2,054
of which				
Asia, Caribbean and Overseas Territories	6	8	12	29
East and Central Africa	94	76	127	181
West and Southern Africa	3	1	0	0
Middle East, Humanitarian & Security	213	129	156	531
Global Funds	250	178	96	123
Growth and Resilience	15	14	23	59
International Finance	231	67	52	75
International Relations	68	112	107	95
Policy	498	477	564	676
Research and Evidence	200	199	203	275
Trade for Development	-191*	7	9	9
Core contributions to multilaterals	2,270	2,448	2,455	3,631
Total	3,656	3,715	3,805	5,685

Source: DFID submission

63. As Table 3 shows, in 2013-14 centrally managed programmes included £2 billion of bilateral programmes managed in the UK, roughly a 50% increase on 2012-13. The majority of these programmes (72%, £1.5 billion) related to three programme areas, Middle East, Humanitarian and Security; Policy; and Research and Evidence Forecasts for 2014-15 anticipate a further increase in bilateral centrally managed programmes, in part due to the Ebola crisis. For 2015-16, DFID expects a similar profile to 2014-15, an increased spending on 2013-14 figures.

64. Witnesses expressed concern to the Committee over the role of centrally managed programmes, and their lack of coherence with country offices. Adam Smith argued that the main niche for centrally managed programmes was focusing on policy and learning, and intended to contribute experience from a variety of countries[104]:

> In general, we would recommend that programmes based in a country should also be devised within that country and managed out of that country office. High quality, locally designed and managed projects–a particular strength of DFID - will tend to be more effective than those which are managed from the UK with only half an eye on the local context.[105]

We noted in our report on Sierra Leone report that centrally managed programmes were not adequately coordinated with country offices, and recommended that DFID make establishing a protocol for centrally managed programmes' engagement with country offices a priority.[106] This was also identified as an issue by the DAC peer review. We were also concerned by the number of centrally-managed programmes run by management

104 Adam Smith International Submission, paragraphs 4.1

105 Adam Smith International Submission, paragraphs 4.2-4.3

106 IDC, Recovery and Development in Sierra Leone and Liberia, October 2014, paragraphs 41-45

consultancies as opposed to DFID staff, with high costs and limited oversight from country offices, and recommended that DFID investigate setting up an arm's-length wholly or partially-owned consultancy to provide a greater pool of those who could manage centrally managed programmes.[107]

65. DFID told the Committee that it was addressing this challenge. It has developed guidance to ensure centrally managed programmes took more account of DFID country office perspectives.[108] DFID also intends to make centrally managed programmes more transparent, as they are not yet even on the development tracker website.[109] DFID also undertook in its 2014-15 annual report the country breakdown of centrally managed programmes.[110]

66. There has not been a fundamental review of the centrally managed programmes. Moreover, centrally managed bilateral programmes are not covered by the Bilateral Aid Review. DFID acknowledged that centrally managed programmes are not systematically reviewed.[111]

67. Table 4 shows that centrally managed programmes are the main contributors to only a few of DFID's key results in the Departmental Results Framework (DRF). Despite accounting for over half of DFID's spending, centrally managed programmes contribute the majority of results for only 3 of DFID's 20 or so DRF indicators, though they have smaller contributions to other indicators.[112]

Table 4: Contribution of Centrally Managed Programmes to DFID Results Framework (DRF) indicators

Indicator	Proportion of total achieved results from centrally managed programmes (%)	Departments contributing centrally managed programme results, and % of total achieved results
Number of people supported to have choice and control over their own development and to hold decision makers to account	60.9	GOSAC (60.4 %) Africa Regional (0.5 %) CSD (<0.1 %)

107 IDC, Recovery and Development in Sierra Leone and Liberia, October 2014, paragraphs 46-50

108 DFID submission, Sections 8-9

109 "We have set up the development tracker system on our website, which means you can go and look at our interventions by country, by sector or by project. That gives us a tool that we can use to build up a complete picture of interventions country by country. We have already starting bringing some other Government Departments' spending on to the development tracker. We can load on to that data from centrally managed programmes as well, so we have a very simple tool." Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q24; DFID also reported that it is "building a new aid management platform to aggregate all the data across the whole organisation and make it more transparently available… the prototype will be up and running later in the year." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q24

110 "It is a fair criticism that this area of what data we provide about how resources we channel through multilateral organisations or other centrally managed programmes get to countries is an area for improvement. Basically, we are in the middle of putting in place a number of things, and we will provide the data on this in this year's annual report, the 2015 annual report." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q24

111 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q27

112 DFID note that centrally managed programmes do have a smaller contribution to an additional 12 DRF indicators – indicators where bilateral country programmes were the largest contributor. DFID submission – full ref to add

Indicator	Proportion of total achieved results from centrally managed programmes (%)	Departments contributing centrally managed programme results, and % of total achieved results
Number of people with access to financial services as a result of DFID support	58.7	PSD (58.0 %) MENAD Regional (0.3 %) Core contributions to multilaterals (0.3 %)
Number of people supported by DFID funding to cope with the effects of climate change	53.5	CED (53.0 %) Africa Regional (0.5 %)

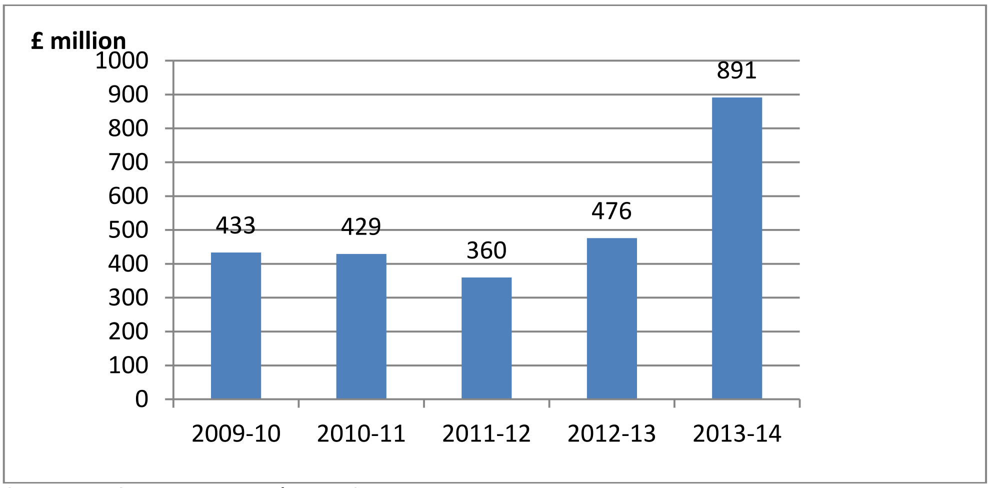
Source: Spring DRF Commission 2014

68. While DFID argued that results from centrally managed programmes delivered by multilateral organisations are captured elsewhere, it should be noted that the Departmental Results Framework is supposed to be the core framework for capturing the Department's results, across bilateral and multilateral spending.[113]

Humanitarian Assistance

69. In 2013-14, UK humanitarian assistance doubled compared to previous years. Humanitarian assistance is now one of the Department's three highest priorities,[114] and is the sector of the Department's bilateral programme which has grown most since 2011–12. Figure 7 shows that in 2011–12, humanitarian assistance accounted for £360 million (8%) of the bilateral programme; by 2013–14 this had increased in proportion and value to 16% and £891 million, and more than the previous two years combined. As noted in chapter 2, in 2013 a significant proportion of this assistance was provided in the autumn, £359 million (40.3% of the total) in November and December alone–equivalent to 75% of the previous year's funding.[115]

Figure 7: Bilateral humanitarian spending



Source: NAO Report, p 41, Figure 13

113 Oral evidence from Mark Lowcock, Permanent Secretary, and Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q27-28

114 NAO report, paragraph 22

115 NAO report, Appendix 6, Figure 28, p. 68

70. The NAO's analysis shows that the UK is becoming increasingly important globally as a provider of humanitarian assistance, as the UK is providing an increasing proportion of the total humanitarian assistance from Development Assistance Committee donors.[116] In 2013 the UK accounted for 13% of all humanitarian assistance provided by DAC donor countries, up almost half on the UK's international share over the 5 previous years. The UK is now the second largest humanitarian donor globally.[117] A number of witnesses welcomed this commitment:

> The UK Government can be proud of its humanitarian response and leadership, meeting both quantity and quality targets, particularly with regards to its response to the crisis in Syria, its response to Ebola and its swift response to Typhoon Haiyan.[118]

71. Around half the Department's 2013–14 spending went to three crises: Syria and the surrounding regions (£283 million,); the Philippines following Typhoon Haiyan (£76 million) and South Sudan (£71 million). While for the Syria crises, the UK's contribution accounted for 10% of all donor commitments, in the Philippines the UK was the largest contributor following Typhoon Haiyan, at 21% of donor government contributions,[119] in a middle income country where the UK has few traditional links, and which is not one of DFID's priority countries.

72. While in 2013–14 16% of DFID's bilateral spending was on humanitarian assistance, it typically plans for a figure of 10%.[120] DFID informed us that it was working to strengthen its own capacity to monitor humanitarian needs, and to make clear its criteria for decision making with the international community about how to manage humanitarian crises, and how much to give, when to intervene or be the biggest contributor.[121] However, DFID argued that: "One of the reasons we do a lot of humanitarian is that we have a track record of doing it well and it is a priority for Ministers and the Government."[122]

> It is absolutely the case that the Secretary of State feels quite strongly that this is something that the Department is good at, the needs are very acute and it

116 NAO report, paragraph 2.25

117 The UK provided £1.2 billion (US$1.8 billion) for humanitarian emergencies in 2013. This made it the second largest government donor of official humanitarian assistance after the US, which gave £3.0 billion (US$4.7 billion). See: Development Initiatives submission, paragraph 3

118 Bond and UK Aid Network submission, Section D. See also: Water Aid submission, paragraph 18

119 NAO report, paragraph 2.25

120 "We do, as you say, have a rule of thumb for the level of effort on humanitarian. The UK has met about 10% of the global humanitarian response over recent years in a consistent way and Ministers have said the Department should plan on about 10% of our activity being on humanitarian." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q16

121 "We could have had a bigger response there, but then that would have had to be at the expense of some other development programme somewhere else. We are always managing those trade-offs. We have been looking at strengthening the Department's capability to look across the range of all of the humanitarian needs at a time, prioritise and try to focus on the ones where we think the need is greatest and we can make the biggest contribution." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q19

122 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q16

> resonates with the public, so it is an important thing for the UK to contribute to.[123]

73. Nonetheless, witnesses expressed concern that this large increase in humanitarian spending that gets government "a rosy glow" reacting to the news spotlight might be coming at the expense of longer term development work needed.[124] the Scotland-Malawi Partnership highlighted that spending in Malawi has been cut back from previous plans in 2013-14 and 2014-15 following the large increase in humanitarian spending.[125] Similarly, Marie Stopes noted:

> While DFID's commitments to humanitarian relief efforts are important, it should ensure that increases in humanitarian expenditure are not made to the detriment of pre-existing programming. Redirecting funds to humanitarian responses from other budgets and programmes can potentially negatively impact core poverty alleviation initiatives and objectives previously committed elsewhere.[126]

74. Water Aid observed that DFID spends much more on addressing health crises than it does on preventing them through funding basic sanitation.[127] Bond and the UK Aid Network highlighted how the increase in humanitarian spending has coincided with a decline in non-emergency spending on governance and security.

> It is concerning to see that the percentage of bilateral aid to governance and security has decreased from 17% in 2012-13 to 13% in 2013-14, resulting in a small decrease in the absolute amount of bilateral aid for governance and security. Meanwhile DFID has responded to various crises as demonstrated by the growing share spent on humanitarian aid increased from 11% in 2012-13 to 16% in 2013-14. This raises questions about the Government's ability to prioritise the 'golden thread' and is surprising given that DFID is scaling up its work in conflict affected and fragile states.[128]

Conclusion and Recommendations

75. **We note the shift in DFID's spending with an increasing share going to humanitarian assistance, multilateral organisations and centrally managed programmes and a reduction in the share of spending on African bilateral programmes.** ***We recommend that DFID increase its spending on bilateral programmes run from country offices, especially in Africa. We recommend that DFID set a ceiling for***

123 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q17

124 Oral Evidence Session, Q18

125 Scotland-Malawi Partnership submission, paragraph 3.2

126 Marie Stopes submission, paragraph 7

127 "Currently, less than 2% of DFID's bilateral aid spend is on WASH, compared with 20% for health. Spending 10 times as much on curing disease as is invested in preventing disease is a poor balance of resourcing, and suggests that WASH is a relatively low priority for DFID despite its central importance for human development" Water Aid Submission, paragraph 13

128 Bond and UK Aid Network submission, Section E.

spending on humanitarian assistance, that its assesses whether the UK is spending a disproportionate amount in this area, leading other OECD countries not to pay their fair share and that it sets out criteria for deciding in which parts of the world it will spend large amounts on humanitarian assistance.

76. ***We recommend that DFID review whether the centrally managed programmes are providing value for money and that and that DFID undertake another review of its bilateral aid programmes, reviewing all DFID programmes within a country (including both those managed centrally and by country offices). We further recommend that DFID revise its Departmental Results Framework to ensure it adequately reflects the results achieved from funds invested in centrally managed programmes.***

77. **We note that multilateral funding has grown significantly in recent times, particularly in 2013, to such an extent that the UK is now the largest global funder of multilateral ODA, providing almost 50% more multilateral ODA than any other donor country. While multilateralism and international coordination is particularly important in many of the countries DFID operates in, *we recommend DFID carefully assess the balance between bilateral and multilateral ODA, and its use of multilateral organisations.***

78. **We note DFID's view that the current division between Low and Middle Income Countries is not always helpful. We further note the desirability of focusing on achieving the MDGs and subsequently the post-2015 development goals. We are concerned by the reduction in spending in some areas vital to achieving key MDGs such as reproductive health and recommend that DFID significantly increase spending in this area and assess whether failure to reduce fertility rates in too many countries is caused by lack of access to contraception or social norms opposed to their use.**

5 Commissioning

> We have moved largely to countries where we do not have sufficient confidence in the fiduciary framework in that country to deliver things directly through Government, so we are then left with essentially three major choices: we can find a delivery partner that is a multilateral organisation; we can work through NGOs; or we can contract through the private sector. In the fragile and conflict-affected states that we are talking about, all of those elements have grown over the last few years.[129]

79. This chapter looks at the varying challenges facing DFID's commissioning in the three delivery routes the Permanent Secretary identified: its use of private sector contractors, large and small, its use of non-governmental organisations (NGOs) and charities, and its management and monitoring of multilateral organisations.

80. DFID's commissioning others to implement development programmes is central to its capacity to spend increased funds. We received a variety of differing criticisms about DFID's commissioning, from the various perspectives of private sector contractors and NGOs. We have also discussed with multilateral organisations DFID's commissioning in recent inquiries. DFID has also been criticised for its commissioning by those who oversee it. As ICAI notes:

> DFID's choice and oversight of its delivery partners has emerged as a key vulnerability in the effectiveness of UK aid. DFID relies on others to deliver its programmes. The quality of its procurement processes and its engagement with implementers are, therefore, key elements in its effectiveness. Yet one of our most persistent concerns across our reviews has been the lack of due attention by DFID to the management of delivery partners.[130]

81. DFID told us that it has no ideological preference for using particular delivery models, just what gets the best results.[131] Witnesses also highlighted the importance of diversity, for DFID to have a variety of suppliers and approaches to call on to respond appropriately to different circumstances.[132] The Permanent Secretary agreed on the importance of diversity in the UK development effort:

> One of the great strengths of the UK as a country, not the Department, trying to support development is that we have thousands of institutions that have a really valid role to play. The Government are keen to use the Department to

129 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q14

130 ICAI Submission, paragraphs 3.1-3.2

131 "What we are always trying to do is to find the best delivery partner to solve a particular problem. There is no ideological or doctrinal preference. We are trying to have competition between delivery partners to get the best results." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q14

132 Bond and UK Aid Network Submission, Section I

> harness the capability and facilitate the engagement of hundreds and hundreds of institutions.[133]

82. In its commissioning role, DFID is the largest 'customer' of UK development work. It has a huge impact on the market of providers. Because DFID has become such an important commissioner of international aid organisations, it needs to understand how its commissioning variously impacts on different sectors, and fosters effective suppliers and it needs to see how it can better foster healthy competition between providers–and can learn from other government departments, who have similar challenges to ensure supplier competition and effectiveness in other sectors, such as the Department of Health as the dominant customer for health care services[134], or the Department of Work and Pensions for social welfare.[135]

Private sector suppliers

83. In recent years there has been significant growth in the value of DFID's work outsourced to the private sector through open commercial procurement channels. Bond suggested that in 2010-11 DFID spent £0.6 billion (or 7.4% of DFID's total budget) through commercial channels; by 2013-14, that figure had doubled to £1.2billion (11.4% of the total).[136] ICAI estimated the majority of this increase was in the last year, with the amount of aid delivered by contractors rising from £0.9 billion in 2012-13 to £1.4 billion in 2013-14.[137] DFID forecasts this level will be stable for 2014-15, and that its procurement expenditure, i.e. programmes with a commercial contract will be £1.2 billion.[138]

84. DFID has set up a system of prequalified consortia for consultancy companies, who are viewed as key suppliers for DFID's priority sectors. According to Garth Glenworth, an ex-DFID employee of 25 years, eleven suppliers within this system now win 60% of all DFID's contracts.[139] Their commercial backgrounds cover a broad range of expertise from finance

133 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q3

134 For instance, see: NAO, Oversight of user choice and provider competition in care markets, Sept 2011, HC1458' NAO, Public Health England: Grants to Local Authorities, December 2014, HC888

135 See: NAO, The Work Programme, July 2014, HC 266

136 Bond and UK Aid Network Submission, Section J

137 ICAI submission, paragraph 3.18

138 Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, DFID Additional Submission. .DFID defines its procurement expenditure as: "expenditure underpinned by a contract, normally awarded through competitive tendering procedures. This differs from the remainder of DFID's spending through third parties which is not competitively tendered and uses other instruments such as Accountable Grants, Memoranda of Understanding and core funding contribution agreements."

139 "DFID has introduced a system of pre–formed and pre-qualified consortia of consultancy companies in priority sectors for the aid programme… Each consortium is convened by a lead consultancy that acts as focal point for organising team responses to DFID invitations to tender. These lead companies play a decisive role, first in deciding whether the consortium will respond to the possibility with an Expression of Interest (EOI) and -then if shortlisted -in determining which organisations in the consortium are to participate and in finalising the proposal submitted. Lead consultancies are self –appointed usually being instrumental in forming the consortium. They are recognised by DFID and are usually large companies which have become the major contractors in the aid programme… One result so far has been that eleven large consultancy companies win 60% of all DFID contracts. They are known to DFID as the "key strategic suppliers" and more colloquially as the "Top Eleven". They are alphabetically: Adam Smith International; ATOS: Coffey; Crown Agents; the recently merged DAI and HTSPE; GRM; KPMG; Maxwell Stamp; Mott Macdonald; Options; and PWC." Garth Glentworth submission

and administrative reform, engineering and IT, agriculture, though less in traditional development areas like education and health.

85. As well as delivering programmes, a key role for some private sector contractors is to help manage DFID's programmes. Witnesses reported that as DFID's programming has expanded at a greater rate than its staffing (see chapter 5), it has gradually become more reliant on using large contractors as managing agents. Garth Glentworth noted:

> DFID needs agents to implement its programmes which have grown enormously in the progression to 0.7% of GNI for the aid budget. Its own staff is far too small to take on a direct role in implementation. Under the present system, the only agents available, which have the capacity and organisation to work in developing countries are consultancy companies.[140]

DFID acknowledged to us that resource constraints are one factor in its choice of commissioning and programming programmes, but not the only one.[141]

Key Supplier Management

86. With this growth in the use of the private sector, DFID has strengthened its supplier management in 2013-14. Witnesses identified a number of improvements:

- DFID has established a Key Supplier Management programme. Coffey International note that this Key Supplier Management programme has allowed for regular dialogue between DFID and service providers, quicker problem-solving, and more accountability for performance, helping create "a sense of partnership in aid delivery."[142]

- DFID has strengthened its early market engagement. As it has developed its pipeline of projects DFID has engaged suppliers earlier. DFID noted that early market engagement benefits all potential partners.[143] Coffey International suggested it has allowed them to have a better understanding of projects' contexts and resources needed, leading to better bids and a better chance for effective delivery. It also noted that early market engagement was inconsistently applied by country offices.[144]

140 Garth Glentworth submission. He further notes: "These [consultancy companies] do compete for DFID business, though there has to be some doubt about how strong that financial competition is when fee levels are compared. The large consultancy companies have expanded taking an ever increasing share of the aid budget and enjoying generous profit margins."

141 "DFID judges the best approach to commissioning and managing programmes on a range of factors. DFID's resource capability and capacity to effectively manage the programme is one factor we consider along with others, including our comparative advantage in managing that type of programme, market delivery route analysis and the need to support the development of local suppliers. This analysis and approach, including whether to break down or consolidate programmes requirements in order to realise efficiencies, is generally done on a case by case basis." Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, DFID Additional Submission

142 Coffey International Submission, paragraph 3.2

143 "DFID has also increased the amount of early market engagement activity taking place with potential partners from all sectors to help make informed decisions on delivery routes and the most appropriate procurement strategy." Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, DFID Additional Submission

144 Coffey International submission, paragraph 3.4

- DFID has improved its staff commercial guidance and skills. ICAI reported DFID has improved its guidance to programme managers and rolled out commercial advisors.[145]

87. However, witnesses also identified a number of ways in which DFID still needs to adapt to be able to commission from the private sector effectively:

- DFID does not have the right frameworks to react quickly. Adam Smith note that rather than use call down contracts where assistance can be mobilised rapidly, staff still tend to hold competitions among pre-selected firms or retain consultants on contracts designed for very different things.[146]

- DFID staff can attempt to renegotiate agreed contracts. Witnesses note the cultural gap with commercial suppliers, where some DFID staff attempt to use the 'post-tender clarification' process to renegotiate fee rates and other key aspects of an agreed commercial tender.[147]

- DFID approval processes are increasingly centralised. DFID processes require Ministerial approval for all contracts above £1 million. As Adam Smith International notes: "This rule wastes a considerable amount of time and results in considerable delays to mobilisation."[148]

Including Small Suppliers and Specialists

88. Some witnesses expressed concern to the Committee at DFID's increasing use of the private sector.[149] They highlighted a number of particular fears:

- Concerns that 'barriers to entry' are increasing and that DFID's key supplier framework means DFID is favouring its familiar suppliers. Such "barriers to entry" include the higher costs and risks of working in Fragile and Conflict-Affected states, higher demands for results reporting and higher risks from Payment By

145 "We found that the quality and intensity of practical procurement guidance offered to programme managers had improved and that the roll-out of commercial advisors in-country had continued." ICAI submission, paragraph 3.18

146 "DFID has two types of framework – call-down contracts in which rates have already been set through a competitive process, and frameworks involving rosters of firms who can participate in mini-competitions. The bulk of the frameworks unfortunately involve the latter approach, whose only advantage is to cut out the PQQ/shortlisting part of the process. There is no call-down, but still a time-consuming tender process which means that it is still difficult to mobilise assistance quickly. There are a very small number of call-down framework contracts, called PEAKS are designed for research and very small pieces of advice. These are now being used more widely by DFID staff for larger interventions because they are the only fast mechanisms available. Because they can only draw upon a narrow base of resources this leads to sub-optimal outcomes… DFID staff use the inappropriate PEAKS frameworks, designed for research and little bits of advice, to retain contractors to do quite significant interventions. It is the only remaining fast means of retaining contractors. DFID needs to put the right mechanisms in place so it can hire the right people quickly." Adam Smith International submission, paragraphs 5.7-6.4

147 "Some claim that they need to make savings in fee rates in order to get the approval of the Secretary of State, although the leadership of PCD says this is completely untrue. The attempt to use the 'post-tender clarification' process to renegotiate the commercial tender is unlawful under the UK public procurement regulations." Adam Smith International submission, paragraph 5.8

148 Adam Smith International submission, paragraph 5.9

149 "At present, commercial procurements are used by DFID for a very wide variety of work across their geographic scope, and it is often unclear from business cases what the justification for this decision is and whether alternative financing mechanisms have been considered." Bond and UK Aid Network Submission, section J

Results (see chapter 5). The Springfield Centre noted that "framework agreements had concentrated power within a few large contractors."[150] Bond and the UK Aid Network called for DFID's procurement to ensure it facilitates broad and varied competition, and avoids favouring the 'usual suspects' within the private sector.[151]

- Concerns over the loss of development specialists and their transformation into task-based subcontractors. ICAI highlighted concerns that DFID has not issued guidance on using specialists.[152] The Springfield Centre notes:

> DFID's concern with efficient procurement has re-shaped the way development industry works, with a detrimental impact on quality and innovation… DFID has historically benefited from the technical expertise of smaller, specialist organisations which are able to be more agile and innovative. However, now these organisations are beholden to large contractors, their ability to shape the work they do is limited and they become task-based consultants with less control of technical delivery. They are obliged to comply with the demands of larger contractors, having been unable to meet compliance requirements to be eligible for the framework agreements.[153]

89. Particular concerns over the exclusion of small suppliers. Small organisations do not have the resources available to invest in the tendering process that larger contractors do, and so are rarely able to compete.[154]

90. On small suppliers, the Government has set an aspiration that 25% of central government spending, by value, should flow to SMEs directly and through the supply chain, by 2015. DFID pointed out that it was doing well in meeting this target, and even suggested it was "ahead of what the Government are trying to do in that space."[155] It reported that over the past three financial years, an average of 30% of DFID's procurement spending has been through SMEs, with £360 million forecasted for SMEs in 2014-15[156] It should be clarified though that DFID's 'direct procurement spending' in 2013-14 only refers to £1,018 million, or 9% of ODA. DFID does not have figures for SME use across its whole programme. It should also be noted that SMEs are defined as companies with an

150 Springfield Centre Submission, paragraph 21

151 Bond and UK Aid Network submission, section J

152 "We remained concerned, however, that DFID had yet to develop strategic guidance on when and how contractors of different sizes and specialisms can deliver most effectively so that the appropriate contractor is engaged for the programme or project. The choice about the delivery route is still left to programme teams on a case-by-case basis, supported by central or in-country procurement resources. We regard this as a serious gap." ICAI submission, paragraph 3.18

153 Springfield Centre Submission, paragraph 21

154 For example, DFID's fast-track payment terms for small businesses are seldom reflected in the contractual terms or payment practices of large framework contractors who sub-contract small organisations. See: Springfield Centre submission, paragraph 21

155 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q7

156 Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, DFID Additional Submission

annual turnover of less than €50 million[157], which is significantly different from the thresholds it uses for small NGOs.

91. Nonetheless, DFID pointed out that it was making a number of efforts to increase opportunities for small suppliers.[158] The Permanent Secretary also undertook to investigate whether its commissioning practices were excluding small suppliers due to staff limitations.[159]

92. In this context, how DFID perceives its role is key: does DFID understand how its way of commissioning is affecting suppliers as a sector, and not just in terms of the effectiveness of individual procurement decisions? In our recent Parliamentary Strengthening report we noted DFID did not properly understand its supply chain; it had not given any consideration to how it should develop a healthy market of UK suppliers; and did not know how much money was going to its major suppliers in the sector without undertaking a manual exercise at the Committee's request.

Non-Governmental Organisations

93. In 2013-14 DFID increased the value of its programme that it delivered through NGOs by £252 million from 2012-13 to £1 billion (Figure 8). This is likely an understatement of DFID's spending on NGOs since it excludes humanitarian spending. According to the NAO, £262 million of NGO funding (26% of the identified spending) was awarded in November or December 2013.[160] The proportion of its bilateral programme that DFID has spent via NGOs remained roughly constant, at approximately 18% for the last three years, though as a proportion of DFID's total programme, NGO spending has declined as the multilateral programme has grown so significantly.

157 The Cabinet Office which promotes the Government's target follows the EU definition of a SME. DFID told us it defines SMEs as follows: "DFID counts as SMEs those suppliers who have declared themselves as such when bidding for DFID contracts via competitive tenders." Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, DFID Additional Submission

158 "DFID has highlighted the Government's desire to work with SMEs at supplier forums, such as those run by British Expertise, encouraging large suppliers to look for ways of improving the opportunities for SMEs in the supply chain. DFID regularly holds SME forums, some in partnership with UKTI, and recently hosted one in our East Kilbride office specifically targeting Scottish SMEs. DFID has also put in place a range of framework agreements which include a number of SMEs. These frameworks make it possible for SMEs to bid direct for financially viable sized projects and also make it easier to form consortiums to bid for larger projects. Additionally, we have an active engagement plan with BOND to help and encourage non-governmental organisations (NGOs) to bid for DFID contracts." Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, DFID Additional Submission

159 "Let me have another look and see if I can establish if there are decisions we have taken to bundle things together for reasons of scarcity of admin cost that, if we were more generously staffed, we would have taken different decisions on." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q11 & 12

160 NAO report, Figure 28, p. 68

Figure 8: DFID Support for NGOs

Support for NGOs

	2009/10	2010/11	2011/12	2012/13	2013/14
Bilateral Aid Delivered through a NGO	599,434	626,752	739,558	747,302	999,809
of which:					
Partnership Programme Agreements	*127,728*	*119,097*	*119,625*	*110,347*	*124,309*
Other CSO's	*471,706*	*507,655*	*619,933*	*636,955*	*875,500*
Total DFID Bilateral Programme	**3,958,263**	**4,248,018**	**4,204,114**	**4,169,389**	**5,524,054**
Total DFID Programme	**6,628,999**	**7,689,149**	**7,682,191**	**7,670,916**	**10,057,810**

Source: Table 1–DFID GPEX statistics 2013–14

94. DFID acknowledged that historically it has preferred to work with larger NGOs, which were typically the main beneficiaries of its Partnership Programme Agreements (PPAs) (which provided core funding to NGOs): "On the not-for-profit sector, it is absolutely the case that the Department's comparative advantage is dealing with the larger organisations. Our staff are not limitless."[161] Figure 9 lists the five NGOs which received the largest amount of funding from DFID in 2013-14:

Figure 9: Non-Governmental Organisations which received the most funding from DFID in 2013–14

NGO	£ million
The Save The Children Fund	64.4
BRAC	60.0
International Rescue Committee UK	48.1
Voluntary Service Overseas	45.4
IMA World Health	27.3

Source: DFID Additional information

95. DFID claimed that it has made extensive efforts in recent years to widen the involvement of smaller, local NGOs through other mechanisms, and sent us examples from Uganda, Zimbabwe and Nepal funded by the Global Poverty Action Fund (GPAF), now "UK Aid Direct."[162] PPAs have become less and less significant for DFID's NGO funding, accounting for just 12.4% of it in 2013-14 (compared to 27.1% in 2009-10). This could help small NGOs:

> If you look at our NGO funding over the last four or five years—we have worked very hard to increase the range of NGOs that can participate in that. There are a lot of NGOs now, particularly small ones, which would not have been recipients of DFID funding in the past that we have reached through schemes like UK Aid Match and through the way that we have changed some of our core NGO funding… If you look at the range of organisations that

161 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q7

162 For NGO funding, DFID defines small NGOs as those with average income of less than £1 million per annum for the past three years. Since August 2011, DFID has provided 72 grants through this scheme to 62 small NGOs with a total value of £15 million. The grants range from £45,000 to £250,000, with an average grant value of £208,000. See: DFID, Follow Up to IDC Evidence Session on DFID's Annual Report and Accounts 2013-14, Additional Submission

> traditionally we have funded through PPA arrangements, they have been multi-million-pound organisations in terms of turnover. Through some of the schemes that we have developed in the last three or four years, we have looked to get to much smaller organisations.[163]

96. DFID’s efforts to promote NGOs and the benefits of its PPA framework agreements were acknowledged by some witnesses,[164] if others suggested that their goals from DFID’s perspective could be made clearer.[165]

97. But other witnesses pointed out that there was no equivalent to DFID’s Key Supplier Management programme with private sector contractors for NGOs, despite the fact that about £1 billion was spent through both channels. We were told that this “places DFID's NGO partners or lower value partners at a disadvantage on consulting on the recent strategic changes to DFID's financing approaches.”[166]. Also Bond and the UK Aid Network conducted a survey of DFID grantees which found that framework contracts were leading to a more distant relationship with DFID and potential loss of learning between DFID and NGOs–which was potentially a barrier to mutual understanding and successful implementation.[167]

Managing multilateral organisations

98. Chapters 2 and 3 discussed DFID’s extensive use of multilateral organisations in 2013-14, and suggested that multilateral organisations had become an increasing option for DFID. This chapter looks specifically at how DFID manages multilateral organisations in its bilateral programme. DFID stated that the growth in its use of multilateral organisations is largely because of the countries it now works in, Fragile and Conflict Affected states, which have a more restricted range of potential delivery partners. [168] Multilateral organisations offer wide access in a variety of countries where few others can operate.[169]

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163 Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q4,6

164 “Strategic funding of CSOs through the PPA framework agreement delivers sustainable development outcomes for poor people. For instance, Oxfam's PPA is invested into its enabling environment, driving forward programme quality to improve the effectiveness of its programmes. This means partnering on quality, accountable programmes which target the most in need, reaching them faster, in partnership with others, and delivering innovative solutions in the most cost-effective way. The flexibility allows for innovation, risk-taking, adaptive management of funds, policy engagement and learning and sustainable change at scale.” Bond and UK Aid Network Submission, Section J

165 “Over the past three years, DFID has provided around £120 million per year in core funding to a group of 41 development NGOs in the form of Programme Partnership Arrangements (PPAs). Core funding is highly appreciated by the NGOs, giving them the resources and the flexibility to innovate and develop their capacity. While we found some good emerging results from this mechanism when we reviewed it in May 2013, we were concerned that DFID seemed unclear in what it hoped to achieve from it, which diminished its overall impact. We found evidence that the funding had led to a stronger focus on managing for results. Some of the NGOs, however, felt under pressure to use the funds for activities that yielded readily reportable results, which partly undermined the value of core funding.” ICAI submission, paragraph 3.20

166 Bond and UK Aid Network submission, section J

167 Bond and UK Aid Network submission, section J

168 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q14

169 “Multilateral development institutions (MDIs) carry the benefits of institutional reach and expertise and decades of learning and experience. In delivering development assistance they are often aligned with important political or diplomatic processes (e.g. at the UN in New York or the World Bank in Washington, DC), and they have influence

99. However, ICAI has raised concerns that DFID does not do enough to look for other options to some multilateral partners.[170] It also notes that: "as the average programme size has increased, the number of partners able to operate at the required scale narrows and some multilateral organisations become, in effect, 'too big to fail'."[171] They are an easy option, as Adam Smith International state:

> The framework agreements that DFID has in place with some multilateral organisations, notably UN agencies… make it easy to pump money into a UN organisation on a non-competitive basis, but do not provide the ability to hold the organisation to account… Giving money to a UN organisation is an easy and low risk option for a busy DFID officer who does not want to have to deal with the reams of paperwork associated with a competitive procurement.[172]

100. The Committee received a number of criticisms of the Value for Money of multilateral organisations. ICAI raised particular concerns on the value for money of aid given to DFID's largest multilateral partner, the EU.[173] Other witnesses suggested there were a number of more general concerns with multilateral organisations:

- They can have high management costs. Adam Smith International described using multilateral organisations to reduce administrative costs as "a false economy" as "multilateral organisations generally have much higher administrative costs."[174] Similarly, ICAI found that bilateral aid spent through multilateral organisations often entailed high (and not very transparent) overheads.[175]

- They can be bureaucratic in their programming. Multilateral funding is less responsive to circumstances, due in part to the long lead times and approval processes that exist between initiating, designing, procuring or launching

with and access to host country governments and stakeholders." Adam Smith International Submission, paragraph 2.4

170 "We were concerned that DFID is not systematically assessing alternatives to UNICEF, believing (sometimes erroneously) that there were no other delivery choices available." ICAI submission, paragraph 3.10

171 ICAI submission, paragraph 3.4

172 Adam Smith International Submission, paragraph 6.4

173 "Our key concern was about the limited assurance DFID has on the significant contributions it makes to the EU, especially given DFID's limited discretion to vary them. We found that greater focus is needed on gathering more on-the-ground evidence about EU programmes". ICAI submission, paragraphs 3.7-3.8. These echo the Committee's own critical findings of the VFM of EU work in its Parliamentary Strengthening report.

174 Adam Smith International Submission, paragraph 2.3. See also paragraph 2.9: "The management structures of MDIs may raise costs and complicate programming for DFID. MDIs have high administrative overheads and interaction with them involves considerable transaction costs. Their use therefore adds an administrative layer with implications for value-for-money."

175 "Funding the delivery of bilateral programmes by multilateral institutions often entails cumbersome management processes and high (and not very transparent) overheads. For example, in our review of 'DFID's Water, Sanitation and Hygiene programming in Sudan', we found that it was impossible for DFID to assess the value for money of its funding via the UN-managed Common Humanitarian Fund. We, therefore, encourage DFID to remain closely engaged with the delivery of its programmes through multilateral organisations. Delegation of functions must not amount to abrogation of responsibility." ICAI Submission, paragraph 3.5

programmes.[176] Decision-making often requires approval from headquarters increasing management effort for DFID country offices."[177]

- Their results focus is limited. Monitoring and evaluation and results measurement are not given a high priority in some multilateral organisations, with evidence and learning rarely fed back into project implementation. DFID has not been able to hold some of its multilateral service providers effectively accountable for results.[178]

- They can be slow to address corruption. Multilateral organisations can be relatively poor at preventing losses and fraud. For instance, UNDP's largest programme, the Law and Order Trust Fund (LOFTA), which helps pay police salaries in Afghanistan has been plagued by lost monies, which UNDP has failed to address.[179] ICAI notes:

> Because multilateral institutions are seen as development partners, rather than contractors, they are not as closely monitored by DFID–a consistent finding across our UNICEF, World Bank, Asian Development Bank (ADB) and European Union (EU) reviews. This can lead to poor risk management and an insufficient focus on results… We, therefore, encourage DFID to remain closely engaged with the delivery of its programmes through multilateral organisations.[180]

101. DFID noted that bilateral programmes are monitored through its annual review process. Additionally, DFID's primary mechanism for assessing the performance of multilateral organisations is its Multilateral Aid Review (MAR), which periodically assesses multilateral organisations' global capacity. Some witnesses praised the MAR as "a useful evidence base for aid allocations."[181] Others, such as ICAI, noted that: "While this is a useful starting point, it does not take account of the variable capacity of multilateral partners in different countries." [182] In particular, witnesses suggested that future Multilateral Aid Reviews need to be more focused on multilateral organisations' impact and capabilities on the ground.[183]

176 Adam Smith International Submission, paragraph 2.6

177 Adam Smith International Submission, paragraph 2.9

178 Adam Smith International Submission, paragraphs 2.6-2.7

179 Adam Smith International notes "Reports of mismanagement and fraud at LOTFA have been around for some time, focusing in particular on procurement fraud. The US Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) has just divulged that up to $200m had been diverted from the LOTFA funds for pensions that had not been properly accounted for, and that there was an unconstitutional "cooperative" fund channelling tens of millions of dollars away from LOTFA salaries to an account within the Ministry of Interior that UNDP had failed to notice until recently. UNDP's response to SIGAR was that it did not have the "institutional mandate" for fiduciary oversight of the funds that it had been employed to oversee. UNDP does not engage with internal audits of the government part of the Ministry of Interior remuneration system, and even though the programme has been running since 2002, it has not engaged in systematic capacity building of the Ministry of Interior internal auditors, so that there is effectively no meaningful internal audit carried out on LOTFA funds once they hit the government system." Adam Smith International Submission, paragraphs 215-2.16

180 ICAI Submission paragraph 3.5.

181 Bond and UK Aid Network Submission, Section C

182 ICAI submission, paragraph 3.4

183 Bond and UK Aid Network Submission, Section C; ICAI submission, paragraph 3.8

102. DFID promised the Committee in its response to its report on DFID's 2012-13 Annual Report and Accounts to look at the cost effectiveness of multilateral organisations as a route for bilateral spending:[184] In 2013-14, this has included the introduction of a Portfolio Delivery Review, a formalised mechanism for DFID's management of UNICEF that will be extended to other UN agencies,[185] and inserting the possibility of immediate suspension into its partnerships with multilateral agencies.[186]

103. DFID stressed the improvements that had been made by multilateral organisations in the last 12 months as a consequence of these efforts, particularly in reducing their administrative costs, procurement processes, and focus on results.[187] Some witnesses agreed that DFID's intervention was having a positive impact on making multilateral organisations more accountable for their results.[188]

104. However, Mark Lowcock added:

> We have a number of continuing concerns that I would say are generic. One is whether there is a sufficiently strong culture of effective fiduciary management, thinking about risk and recovering losses, when losses occur. We would like, across many of the agencies, a greater degree of confidence that they are across that more effectively.[189]

184 See: Government Response to Committee Report, *Department for International Development's Performance in 2012-13: the Departmental Annual Report 2012–13*, Second Special Report of Session 2014–15, HC 522, Recommendations 11-12

185 ICAI notes that: "The introduction of the Portfolio Delivery Review (PDR) by DFID's United Nations and Commonwealth Department (UNCD)… is an important step in ensuring that DFID has improved oversight of its UNICEF portfolio as a whole. We were told that this review process was being rolled out to UNDP and UNFPA during the course of last year. We encouraged DFID to consider extending the process to all multilateral organisation with which it has bilateral partnerships." ICAI submission, paragraph 3.11

186 "DFID is putting its partnerships onto a more commercial footing in its approach. For example: one change should see case-by-case consideration being given to the return of unrecovered defrauded funds. Additionally, DFID will have the right to suspend or terminate a programme immediately where there is a credible allegation of fraud (previously, termination was subject to the standard notice period of three months)." ICAI submission, paragraph 3.14

187 "We do see progress in a stronger results culture and a focus on asking the question: what are we getting for our money in this institution? For example, they all have better management information, which they publish and put into the public domain, about what they are achieving. The World Bank, for example, has a much stronger, balanced scorecard setting out its achievements and results, so that is open to scrutiny; you can have a better discussion on it. Secondly, a lot of them have made progress in containing their administration costs and driven down their share of admin costs in their total budget. I have given figures to the Committee before about that: 5% cuts in admin costs, year on year, across a range of especially UN organisations. Thirdly, a lot of them have made some progress on the effectiveness of their procurement systems. One of the things the Department has been collaborating with a number of multilateral organisations on is driving down the costs of some key commodities… This whole agenda of much stronger scrutiny of the effectiveness of these agencies is one that the UK has played a leading role in" Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q15

188 "DFID's contributions to multilateral agencies are crucial, with DFID's influence and leadership helping to ensure that multilateral organisations are accountable and deliver results. DFID has made good progress in addressing the Multilateral Aid Review's recommendations with many multilateral organisations." Marie Stopes Submission, paragraph 5

189 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q15

Conclusion and Recommendations

105. **We recognise that it is not DFID's main function to keep suppliers in business, but we are concerned that DFID is making too little use of small, expert, technical, suppliers and pays too little attention to how its commissioning affects small suppliers. This situation may have been exacerbated by DFID's need to increase its spending rapidly. We welcome the Permanent Secretary's agreement to look at whether restrictions on staff numbers are affecting the extent to which DFID uses smaller suppliers.** ***We recommend that DFID review its approach to project design and commissioning to ensure it is not excluding smaller suppliers. DFID should aim to increase in 2015 both the absolute value of business going to SMEs and the proportion of its total spending going to SMEs, either directly or in its supply chains. DFID's review should also consider the risks of its reliance on large suppliers and multilateral organisations. We recommend that DFID assess other departments such as Health or DWP, where government is the dominant customer, to learn from their successes and failures in this area.***

6 Programming and Staffing

106. This chapter looks at how DFID's programming has adapted to its changing management requirements. We look at three aspects: DFID's programme management reforms, its use of Payment By Results, and its staffing.

Programme Management

107. In last year's report on DFID's performance, we stressed the need to streamline programme management. We are pleased that DFID[190] has reformed its programme management processes, following a review by the Secretary of State which found:

- DFID's conventional approach to programme management needs to change. DFID needed to strip back our process and focus on real-world delivery. Its programmes need to be flexible and responsive to changing political realities and conflict dynamics on the ground;
- Programme excellence requires collective responsibility for delivery. This means making decisions that are contextually aware, proportionate in their management, and clear in their audit trail;
- Streamlining processes will only get the Department so far. Culture and behaviour are in practice more important than the fine print of the rules.

Following this review, DFID developed reforms to its programme management including: improving programme management rules, skills and accountability

Smart Rules

108. DFID has improved its programme management processes through the introduction of the Smart Rules in June 2014, streamlined documentation, and tighter governance of the DFID programme cycle. DFID told us that the Smart Rules have simplified requirements for business cases, and encouraged DFID senior staff to use their judgement on what is necessary.[191] Many witnesses welcomed the increased flexibility of the Smart Rules, although further improvement was needed; Coffey International stressed the need for more flexible and adaptive programming so that changes were easier to make.[192] ICAI

190 DFID Submission, Section 2

191 "The smart rules process has hugely simplified the guidance on business cases and given much more responsibility and accountability on SROs to decide how detailed they want their business case to be and whether they want to invest much more in particular aspects of that." Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q46

192 "UK aid is focused on fragile and conflict-affected states, many with rapidly changing political, social and economic contexts. For projects to be effective there is a need for flexible and adaptive programming, including the agility to adapt to evolving local needs. As noted in "Smart Rules: Better Project Delivery," the design of the programme should "explain how the flexible approach will operate in practice." Programme design remains crucial to delivery – without a strong design foundation, the programme has little chance of success. This is as true for flexible programming as for any other type of programme. Comprehensive monitoring and evaluation systems need to be in place to allow for learning and for the programme to adjust its approach as it learns about its context and the effectiveness of its approach. The cost of M&E, therefore, has to be factored into the cost of the programme. When

undertook a Rapid Review of the Smart Rules which Box 1 highlights.[193] This included the need for the rules to be part of a wider transformation of the Department.

Box 1: ICAI's Rapid Review of Smart Rules

ICAI recently reviewed DFID's new Smart Rules. It found:

- There has been a serious attempt through the End to End Review and Smart Rules to grapple with some of the worst examples of procedural inefficiency.
- The Smart Rules are a good beginning to the streamlining process, with the previous 200 compliance steps distilled to 37 rules. Country offices report they are pleased with the greater flexibility and simplicity.
- The rules could be pared down further. Further clarity on what is mandatory and what is guidance is needed. The document still contains many 'musts' beyond the 37 rules.
- The changes to the rules are necessary but not sufficient. The rules need to be part of a stronger vision and strategy supported and resourced by DFID senior management team, and part of a wider transformation of the department.
- There has been an effort to reinforce the focus on delivery, with the introduction of the Delivery Plan as a key document a major step forward.
- The Smart Rules are still not focussed sufficiently on the implementation stage of the programme cycle. Little in the rules provides clarity on how staff should oversee day-to-day implementation. Of the 37 rules, only 3 sit under the 'delivery' sub heading.

ICAI recommended that the Smart Rules need to:

- be more explicit about intended beneficiary involvement;
- clarify the relationship between value for money, sustainability and impact;
- ensure a consistent approach to risk, adaptation and learning;
- enable mobilisation and increased realism in planning; and
- make senior staff (such as heads of office) specifically accountable for continuous learning

109. Similarly, Adam Smith International highlighted three additional weaknesses of the Smart Rules:

projects are being implemented by service providers, flexible programme delivery also requires clear and straightforward mechanisms for making changes to the programme's contract, objectives, and approach. The changes have to be easier to make than current procedures allow. Additionally, DFID programme managers need to be empowered and ready to use the flexibility that does already exist." Coffey International Submission, paragraph 3.8

193 ICAI submission, paragraphs 2.3-2.4, 2.6, See also: Smart Rules: Better Programme Delivery, DFID, October 2014

- Multilateral bias: The rules discuss support to multilateral organisations, but only mention positive attributes of these organisations, despite many of them being highly defective in a wide number of respects.[194]
- Goldplated Business cases: The actual instructions on how to prepare a business case are still too complicated, and do not do enough to reduce incentives towards producing gold-plated business cases, which inevitably become outdated.[195]
- Loss of MOUs: There is no reference to the necessity of DFID signing MOUs with beneficiary countries on programme implementation. This leads to significant problems in understanding with beneficiary countries.[196]

Programme Skills and capability

110. DFID reported that it is developing its programme management capability. Previously ICAI highlighted this as a significant weakness:

> We were concerned, however, at DFID's poor end-to-end programme management practices and the apparent lack of priority given to project management skills in DFID's staffing. We have seen instances of relatively junior DFID staff struggling to manage large contractors with far greater experience; with DFID personnel turning over much faster than the contractors' staff, leading to gaps in accountability.[197]

111. DFID told us that since this finding senior professional staff have been recruited and over 400 existing DFID staff have been on programme management training with 250 staff formally accredited into the "programme management cadre."[198] DFID reported that it has not sought to set up a separate programme management team, but to have programme management seen as a core skill for all frontline staff.[199]

112. DFID also informed us that it was important to change the culture of the Department,[200] but Adam Smith International noted that DFID faced real challenges in

194 Adam Smith note: "The rules describe the decision to support multilateral organisations as being partly based on their "commitment to delivering improvements and reform." This is pretty extraordinary. Imagine DFID choosing a supplier because it says it will improve its performance." Adam Smith International submission, paragraph 5.3

195 "Businesses cases are of little use as a guide to the future in that an intervention cannot sensibly be planned out in detail in a business case. If a business case process takes too long, changes in the implementation circumstances will render the programme out of date. In development terms this is a very real case of the aphorism of the perfect being the enemy of the good." Adam Smith International submission, paragraph 5.4

196 Adam Smith International submission, paragraph 5.6

197 ICAI submission, paragraph 3.16

198 A Head of Profession for Programme Management was appointed in 2013. A secondee from the Major Projects Authority has been working with DFID to bring experience from across HMG. See: DFID Submission

199 "What we are trying to say to the organisation is that actually this is not about either/or. Managing good programmes and being a really strong programme manager is something that most people in DFID should aspire to. Most of our staff in DFID are, one way or another, managing programmes and that specialism needs to be recognised as a skill set that people build up, alongside all their other skills and capabilities. " Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q42

200 "What is much more important here is trying to achieve a change in some of the culture and ways of working in the Department." Oral evidence from Richard Calvert, Director General of Finance and Corporate Performance, 4 February 2015, Q42

moving its culture towards the flexibility and adaptability necessary for effective programme delivery, and supporting staff to take risks.[201] The DAC Peer Review also noted that DFID staff did not always feel they could change the way things were done in the Department.[202]

113. Nonetheless, DFID reported that it is seeing a changing focus in its staff's efforts, and in how seriously programme management and monitoring is now taken by staff.[203] Though it should be noted the Committee's recent Parliamentary Strengthening report found that there were still considerable delays in when annual reviews or completion reports were publicly reported.[204]

Accountability for Programme Delivery

A key focus of DFID's reforms has been on clearer accountability for programme delivery, rather than just design. The Springfield Centre highlighted the need:

> Staff incentives are typically not aligned with good development but with meeting spending targets, and with the ability to deliver politically-appealing symbols of progress… The emphasis is on new programming and projected spending, not quality of implementation… By the time the performance of an initiative is scrutinised–they typically take eighteen months or so to set up–the advisor will be on the way to a different posting, so there is little accountability for performance… There is a fundamental misalignment between personal and organisational incentives and genuine development goals.[205]

114. DFID is introducing Senior Responsible Owners (SROs) for every DFID programme, responsible for the vision and overall performance of a programme and providing leadership throughout the programme life cycle. It has 200 SROs now in place. Witnesses

201 "One DFID senior official has commented to us as follows: "Am personally finding the Smart Rules are liberating to a significant degree- but much depends on discretion. I find many in DFID have – unfortunately – simply been conditioned now to look for rules and be risk averse. So it's the culture now, not the rules, which are part of the problem." Adam Smith International Submission, paragraphs 5.11-5.13

202 "Evidence from a DFID staff survey shows that many staff do not feel they can challenge the way things are done in DFID, which can discourage innovation." OECD Development Cooperation Peer Reviews, United Kingdom 2014, Executive Summary, Section 4, Managing the United Kingdom's development cooperation, p. 18. In DFID's Civil Service People survey for 2014, 66% of respondents agreed or strongly agreed with the statement "I believe I would be supported if I try a new idea, even if it may not work.", a decline on previous years. See: DFID Civil Service People Survey, Organisational Culture, Question B59

203 "We are absolutely seeing a switch in effort from the pre-approval processes to the post-approval. One of the measures of that is much better compliance rates in the last few months with the core processes after approval, so annual reviews and project completion reports. A year or two ago, we had a major backlog of those. That has largely been got rid of now. What we are also seeing is a lot more attention by managers to how well their bit of the portfolio is performing, which reflects the fact that the departmental board, which the Secretary of State chairs every quarter, and the management committee, which I chair every month, look at the data and asks questions." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q43

204 Commissioning Chapter – Figure 4 & para X – full ref to add

205 Springfield Centre submission, paragraph 23

welcomed the SRO mechanism, and stressing the importance of its oversight role.[206] However, one major limitation to its ambitions to ensure SRO accountability is the high level of staff turnover in DFID country offices (see below). ICAI notes that this means:

> Several staff are likely to be SRO over a project lifecycle. DFID staff often move to new positions and countries with incomplete handovers. We think that there might be scope for DFID to consider whether and how staff remain accountable for their actions, when SRO of a project, after they have moved to new jobs (as happens in other organisations)… The SRO duties will need to be updated to reinforce the handover obligations and that a formal record of accountability should be established which can access past SROs for programme review and adaptation.[207]

Payment By Results

115. Another key change in DFID's approach is its increasing use of Payment By Results (PBR) mechanisms, where payments are made only after the achievement of pre-agreed results, rather than up front to fund future activities. DFID's new strategy aims to make PBR a core part of the way it funds projects, and for PBR to become the Department's default delivery option.[208] In the DFID 2013-14 Annual Report, DFID states: "DFID is at the forefront of international activity, mainstreaming more used forms and testing the most innovative forms of PBR."[209]

116. Following this ambition, DFID has begun to issue many PBR contracts. DFID reported in the 12 months to September 2013 that 71% of contracts for services issued centrally by DFID had a performance-based element, where payment is conditional on

206 "DFID's Senior Responsible Owner (SRO) mechanism is also a welcome initiative. The mechanism is an opportunity to improve project delivery, in particular by enabling service providers to discuss challenges with a DFID officer who can take an objective and strategic view of projects, from within the broader programme and country context. However, this "board level" like decision-making / oversight role will only be effective if the SRO has sufficient experience to make the types of decisions that are required and if the officer holds no other role in the project(s) she or he is overseeing (to prevent any conflict of interest)." Coffey International Submission, paragraph 3.3

207 ICAI submission, paragraph 2.5

208 In her foreword to DFID's new strategy, the Secretary of State notes: "I want Payment by Results to be a major part of the way DFID works in the future. We will develop a framework to ensure that for all of our Payment by Results projects, there are rigorous, independent, comparable evaluations in place, so we can learn more about what works best, in what circumstances." Foreword, *Sharpening incentives to perform: DFID's Strategy for Payment by Results. Examples of Payment by Results (DFID, Strategy for Payment by Results) p 7*

209 The Report highlights this is because PBR has a number of benefits, and can be used to: (i) **Rebalance accountability**: in traditional aid, by paying upfront DFID accepts the bulk of the risk of programme failure. PBR redresses this balance by transferring some of the risk for delivery to partners. This sharpens incentives for the implementing partner to perform. (ii) **Increase innovation and flexibility in delivery:** by not specifying how results should be achieved, implementing organisations are free to innovate to improve outcomes. (iii) **Increase transparency and accountability for results:** through being open about agreed results, everyone is clearer about what is being targeted and whether it actually gets done, driving up empowerment and accountability for results. (iv) **Create a strong focus on performance** in service providers, which has benefits beyond PBR. By being paid on results, service providers are strongly encouraged to examine what is, and is not, working, driving up performance standards, management and measurements. DFID Annual Report and Accounts 2013-14, paragraphs 5.10-5.11, p. 118

results, and that it was using more contracts where payment is based on delivering pre-agreed outputs.[210]

117. While witnesses acknowledged that there are benefits in looking to improve on existing funding mechanisms, a strong sense of concern was expressed by witnesses that the wholescale move to PBR was premature. Bond and UK Aid Network highlighted: "the strategy and the pace of its implementation has run ahead of evidence."[211] The Committee received a number of concerns over DFID's limited piloting of PBR ahead of this extensive roll out, as Water Aid observe:

> We note that DFID's annual report confidently asserts several benefits to PBR approaches, including improved performance, innovation and transparency. As explicitly recognised by DFID in their recent Strategy for Payment by Results, there is no evidence to support any of these assertions. We would urge caution about increasing the use of PBR before current contracts have produced some evidence on their effectiveness.[212]

118. When questioned, DFID acknowledged that there is limited evidence available on the effects of using PBR in developing contexts. Rather DFID suggested its current use of PBR should actually be seen as a "pilot phase."[213] Witnesses also identified a number of more detailed concerns which should be kept in mind in these pilots caused by PBR's requirements for: results and measurability, short-term certainty, its effects on flexibility and innovation, risk transfer, and incentives for over-reporting.

Results and Measurability

119. Witnesses suggest that PBR has a number of requirements to make it work, including:

- Definitions: Results in development projects are often hard to specify, with circumstances changing and confusion rife. Clarity and agreement over the definition of what a "result" actually is are essential to prevent disputes or distracting negotiations.[214]

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210 DFID submission

211 Bond and UK Aid Network submission, Section K

212 Water Aid submission, paragraph 3

213 "It is the case that we are in a learning phase and that is what the Secretary of State has said. We want a larger number of examples, because otherwise we will not generate enough evidence… Effectively, what we are doing in the programmes we have at the moment is a range of pilot exercises. We started some in Rwanda and Ethiopia two or three years ago. Mostly they were Government to Government. The way we are writing our contracts for the commercial sector, we are trying more regularly to get a results element into contracts as well, but we have very few contracts where the only thing that determines the payment is the final delivery of the result. Normally, the results bit of the payment is part of a wider set of arrangements under the contract, and we are doing that deliberately because we are aware of the risks and potential distortions." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q47-48

214 Development Results Forum Submission, paragraph 1.3 See also: "When PBR is used, the donor and the service provider need to work closely together before project launch to precisely define the results for which the service provider will be paid. There needs to be absolute clarity at the outset what these results are and how achievement is verified. At a basic level, there also needs to be an agreed-upon nomenclature on what "results" means, understood by all staff within both agencies of the donor and of the service provider."

- Measurement: Coffey International stress that "PBR can only be applied where the results can be measured, and to be financially workable… only where the results can be measured within a reasonable timeframe."[215] It also requires a significant level of resources devoted to measuring and reporting results regularly.[216] This can place can place significant bureaucratic burdens on DFID and its suppliers.

- Measurability: There is a consequent tendency towards "measurability", for projects to pursue "change that is most easily measured, rather than change that is most important."[217] This tends to focus on output targets rather than outcomes. DFID admitted that its current use of PBR is still focused on output targets, and that it is often very challenging to find outcome targets.[218] DAI Europe explained:

  > DFID has tried to set output targets (and therefore payment milestones for implementers) on a rolling, short term basis. Outputs for the near term will usually be clear. However, this solution creates a number of perverse incentives. Targets tend to focus on easily measured, quantitative results, instead of the systemic and behavioural change that development programmes often really need to achieve. The constant focus on the output level of the logical framework obscures the higher level outcomes and impact objectives. Implementers focus on achieving the immediate output target over laying the foundation for achieving the higher level outcomes.[219]

120. The danger of this focus is to squeeze areas that do not directly lead to 'results', like initial engagement, or institutional transformation, or to push organisations to show results promptly rather than establish the foundations necessary for more fundamental

215 Coffey International Submission, paragraph 4.3

216 Bond and UK Aid Network Submission, Section K: "There is growing feeling from some NGOs that Results Based Financing requires, in many cases, a higher level of monitoring, verification and evaluation sophistication and certainty than is viable."

217 Springfield Centre submission, paragraph 19

218 "A lot of the cases we have, including the water sector one I referred to, are basically output targets. There are some cases we have that you might think of as being a bit more outcome." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q50

219 "The timeframe in which aid-funded interventions are supposed to achieve impact is increasingly skewed towards the short term… There appears to be a growing assumption that the relationship between inputs and outputs are linear and predictable, that funding levels are directly proportional to results achieved. Again, more is better. This is not credible in a developing country context. If development means strengthening national systems (comprising national governments, the private sector and civil society stakeholders), then it must be accepted that the starting point is weak, risks are high, absorptive capacity low, and that progress towards lasting impact will not be smooth." DAI submission

reform.[220] This means that PBR can often shift incentives away from systemic change or building local capacity.[221] The Development Results Forum noted:

> If the deliverables chosen for payment do not cover all of the activities required to deliver the results, then there is a clear incentive to drop the other activities, as no payment is attached to them. This makes achieving the overall goals of the project is less likely.[222]

Short-term Certainty

121. PBR tends to encourage a short term focus. The Development Results Forum note that if a project is relatively short-term, with clear deliverables, and where the delivery of the result is fully within the control of the provider, then PBR can be effective.[223] However, other witnesses warned that in most development contexts PBR can encourage a short-term focus on the quick wins–on doing things right, rather than doing the right things.[224]

As a consequence, witnesses suggest that this encourages implementers to take a narrow focus on the things they can control.[225] ICAI observes that DFID's commissioning can already tend to set unrealistic targets for suppliers,[226] which PBR could exacerbate. The Springfield Centre notes PBR carries the false assumption that development projects should be predictable in their outcomes.[227] Witnesses stressed that PBR creates a particular tendency for implementers to avoid uncertain work in two areas:

- Less work with the most vulnerable. PBR provides a clear incentive against: seeking results in higher risk, more difficult locations, or seeking to reach more vulnerable,

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220 "The beginning of a project is extremely important for putting down the foundations for good delivery. Building relationships with stakeholders, getting local ownership for a project, and understanding the political economy, for example, are vital for setting a project up for success. Rushing these steps can have negative consequences for the project down the line. DFID too often urges contractors to cut costs for basic programme foundations such as good office set up and proper local engagement. DFID needs to be realistic about what can be achieved in the project's first months and what enablers are required to catalyse later delivery." Coffey International submission, paragraph 3.10

221 "The prevailing approach in DFID centres almost exclusively on delivering the 'what'… and ignores the 'how'… Sustainable development is not about delivering insecticide-treated malaria nets directly; it is about developing sustainable systems of net provision…. Delivering solutions directly might result in a short term splash of impact… but all too commonly direct delivery displaces the emergence of the local capacity, investment and ownership that is needed to continue delivering solutions into the future." Springfield Centre, paragraph 13

222 "The PBR approach demands clear and simple indicators that must be produced in a project timeframe that is inevitably relatively short. This may come at the cost of longer term data collection and analysis to monitor aid effectiveness more properly understood, as articulated through the Paris, Accra and Busan principles" Development Results Forum, paragraph 3.4

223 Development Results Forum Submission, paragraphs 2.2-2.3

224 Water Aid submission, paragraph 7.3

225 "In certain contexts or on certain types of projects so many external factors will affect the project that the service provider will have a very low level of control over expected results, … in situations where random variation or other actors are very important, service providers "are more likely to be punished for misfortune and rewarded for good luck. This will in turn dampen their incentives to exert effort." Coffey International submission, paragraph 4.5

226 "The procurement process created incentives for firms to over-promise on results and underestimate their costs in order to win bids, causing problems with delivery. Furthermore, delays in procurement led to DFID placing pressure on contractors to meet unrealistic spending and results targets, forcing them to shortcut key processes like stakeholder engagement" ICAI submission, paragraph 3.16

227 The Springfield Centre submission, paragraphs 11-12

poorer communities.[228] Bond and the UK Aid Network observe: "For NGOs, there is emerging evidence of undesired behaviour arising from the use of PBR, such as challenges supporting the hardest-to-reach."[229]

> There are also concerns over the combination of central management of funding with Payment by Results contracting methodologies. These give the service provider a direct incentive to direct funding to the less challenging locations where results are easier to achieve, and towards target groups who will yield results more easily. It is more difficult to achieve results in poorer and more disadvantaged communities.[230]

- Bypassing national systems. Rather than encouraging contractors to work with and facilitate national systems, PBR promotes a focus on delivering directly, bypassing efforts to deal with messy national systems.[231] Water Aid suggests that PBR should be judged precisely in terms of these 'results', its impact on the sustainability of developing country systems.[232]

Flexibility and Innovation

122. Witnesses also suggested Payment By Results has a tendency to inhibit programme flexibility, since it requires results to be defined in advance of work, and provides a framework that is hard to move away from. In conflict-affected and fragile environments, projects typically require great degree of flexibility, not only in how they are implemented but also in what realistic objectives are. Changing political realities, counterparts and timescales all mean that what is agreed today, might not be sensible or even viable in three months' time.

123. Moreover, witnesses suggest that PBR "provides a clear incentive against innovation."[233] Bond highlight that PBR risks excluding the most innovative approaches.[234] WaterAid state that its experience from DFID's WASH Results Programme, a finalist in the Government Excellence in Public Procurement Awards, was that it actively discouraged innovation:

> WaterAid's reputation and finances would be at risk if we did not deliver on the contract, so we have ensured that the proposal covers activities for which

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228 Development Results Forum Submission, paragraph 4.7

229 Bond and the UK Aid Network submission, Section K

230 Adam Smith International Submission, paragraph 4.4

231 The Springfield Centre submission, paragraph 20

232 "Any assessment of the effectiveness of [PBR] must therefore go beyond consideration of outputs and outcomes to assess the extent to which it supports long term sustainable development through the strengthening of country systems. The development of the capability of governments to ensure the delivery of basic services is the only way that countries can escape aid dependence and deliver sustainable services." Water Aid submission, paragraph 6

233 Development Results Forum Submission, paragraph 4.7

234 "The rise of PBR is dis-incentivising innovative and higher risk programme methodologies. Following learning from a flagship RBF programme (DFID WASH Results), some NGOs have reported being deterred from entering into DFID RBF funding streams in both high risk / fragile states, and also for more complex work (such as governance work and highly community based work). This is because the complexity and uncertainty of the work is not suited to the lack of sophistication in RBF approaches." Bond and UK Aid Network submission, Section K

> we have a high level of confidence we can predict and ensure stated outputs, which means our most experienced country programmes and tried-and-tested approaches.[235]

Risk Transfer

124. Payment By Results marks a transfer of risk for delivering results from the Department to those implementing programmes. This has often unseen implications:

- Cost Implications: Risk transfer typically costs money, and leads to higher cost for those wishing to transfer it away. DFID will need to be mindful of this in the management costs it is paying, especially when working with delivery partners where these are not clear (see chapter 4).
- Risk of Exclusion: Marie Stopes note that PBR risks excluding those suppliers who cannot absorb this risk.

> Many of the contexts in which development agencies work are risky and challenging. DFID should consider the risk that payment by results contracts ask NGOs to assume. Contracts with large payment by results components risk excluding technically strong suppliers from a tender process, even where they may be able to demonstrate good value for money.[236]

> It has the consequence of creating additional barriers to entry for smaller groups. Because the risk of payment lies with the delivery partner, delivery organisations can need large reserves to cope both with the wait until payment for long term results, and uncertainty around the payment level. This level of financial risk is often too much for smaller organisations. DFID notes that its current pilots have already highlighted this risk.[237] Careful consideration of milestone payments is essential.[238]

Misreporting

125. Finally, when payment is directly linked to results the incentives to over-report results are greatly increased. These risks have in recent times manifested elsewhere in government, such as in the Ministry of Justice. ICAI have previously identified risks in partners over-

235 Water Aid submission, paragraph 7.1

236 Marie Stopes submission, paragraph 9

237 "Some of the organisations that we are working with are themselves a bit cash-constrained, so you have to avoid putting them in an untenable position by holding back money if the results are not absolutely perfectly done, because it is not in our interest to put people out of business for good but not brilliant performance, so there is that cash management issue." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q47

238 "PBR requires service providers to pre-finance activities, using significant upfront resources before being paid. Therefore, milestones need to be fairly spaced to take into account the cash flow realities of service providers. This is also necessary to prevent creating significant barriers to entry for NGOs and small firms." Coffey International submission, paragraph 4.8

reporting their results, and weaknesses in DFID's identification of this, for instance in its nutrition report.[239] DFID told us that it is looking to monitor these risks quite closely.[240]

126. Overall, witnesses suggested DFID needs to understand when it is appropriate to use PBR, and when not. As Coffey International note: "PBR is not a panacea to address the apparent weaknesses of input-based contracts."[241] Witnesses argued that PBR is not a suitable default option for lengthy programmes in uncertain areas such as Fragile and Conflict Affected states (which account for 21 out of DFID's 28 priority countries), and PBR is ill-suited for many development circumstances. The Development Results Forum concluded:

> PBR is not a silver bullet which will enable DFID to achieve better development results without the hard work of close involvement in development interventions. In general, as DFID Chief Economist Stefan Dercon has pointed out, PBR is not suitable for most technical assistance interventions. It should be used very sparingly and only in the right circumstances; the exception rather than the rule.[242]

127. DFID also needs to understand how to use PBR. Witnesses stressed that currently there is a disconnection between central ambitions to use PBR, and how country offices actually manage programmes.[243] Looking forward, the Development Results Forum added that PBR will only be made effective through close cooperation between DFID and its implementing partners.[244]

128. DFID recognised that while PBR could produce a strong focus on results, problems could arise:

> What we have been trying to do in our PBR contracting is to strike an appropriate balance between incentivising a stronger focus on results, but

239 "Monitoring data is often of low quality: In Zambia, our research found that coverage of Vitamin A and deworming had increased but significantly less than DFID had reported. In Mbala district, only 25% of children had received two doses a year of Vitamin A, while in Mufumbwe district 75% of children had. DFID reported coverage of 65% and 100%, respectively but this referred to children receiving Vitamin A and deworming once, which is not the recommended annual dose.88 In the India UNICEF Partnership villages we visited, 15 villages were reported as having 100% coverage of latrines. Only seven villages actually did. Some 20% of households in these villages did not have latrines." ICAI, DFID's Contribution to Improving Nutrition, Report 36, July 2014, Figure 7, p. 19

240 "This is one of the distortions you need to be careful about. People respond to incentives. In a way that creates a helpful incentive on us. We are aware of that risk, so that means we have an incentive to make a better effort really to look at the data that is being reported to us, to assess its credibility, to satisfy ourselves that it is legitimate. Those are all good things for us to want to do more of. Clearly, that would be fraud, if people over-claim and get paid on the basis of that" Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q52

241 Coffey International submission, paragraph 4.1

242 Development Results Forum submission, paragraph 5.1

243 "In some cases there seems to be a disconnect between DFID's Procurement and Contracts Department (PCD) in East Kilbride and country offices. PCD tends to favour OBC whereas DFID country offices like to have visibility and control over inputs. This can lead to circumstances where the contract is based on output milestones but the country office still requests a detailed breakdown of inputs and control over those inputs – the worst of both worlds." Development Results Forum submission, paragraph 4.5

244 "For it to work effectively it needs to be appropriately and consistently applied in the right circumstances only and requires a maturity of relationship between the parties to allow for the flexibility that is required on the ground." Development Results Forum submission, paragraph 5.3

recognising that sometimes, through no fault of the implementing organisation, things take a bit longer than they were expecting to or other problems arise. We are trying to strike a balance there.” [245]

Staffing

Numbers

129. DFID staff numbers have grown in the last 3 years, but at a lower rate than the growth in the Department’s expenditure. Figure 10shows that DFID’s staffing (Full Time Equivalents) grew by 24% in the 3 years from 2,325 (FTE) in 2011 to 2,847 in 2014.[246] Figure 11 shows that this means that DFID spending per staff member has risen from £2.5 million per FTE in March 2009-10 to £3.3 million per FTE in 2013-14.

Figure 10: Rises in DFID Staff Numbers

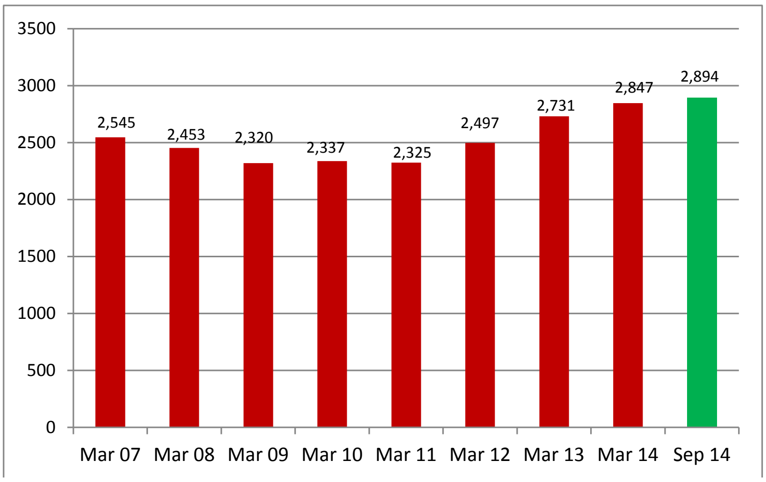
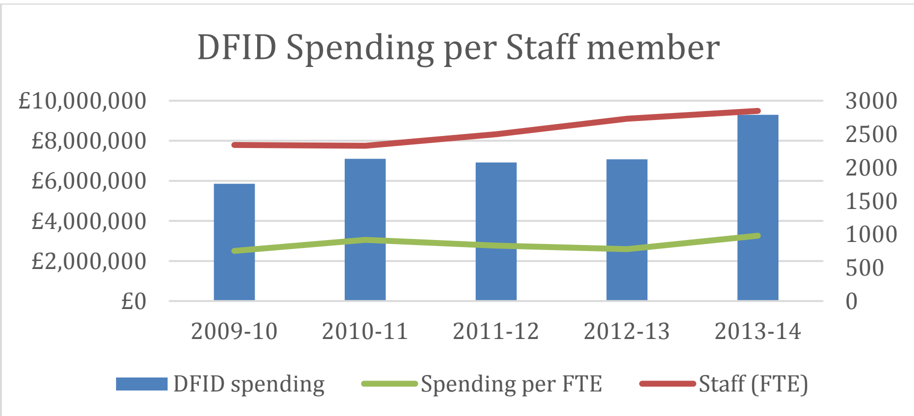


Figure 11: DFID Spending per Staff Member



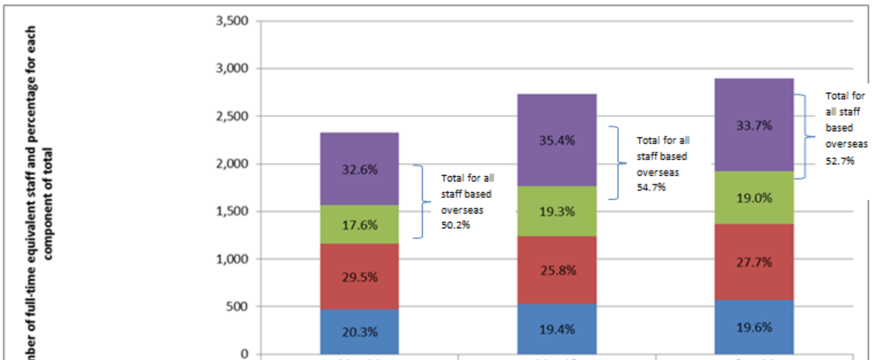
245 “Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q47

246 NAO Report, Figure 11. September 2014 figure is not a year-end value.

130. DFID staff are well paid, when compared to peer Departments. The median salary for DFID staff in 2013-14 was £52,901. This is significantly higher (almost £19,000 or 55% higher) than the median salary for Foreign and Commonwealth Office staff (£34,090).[247]

131. Figure 12 shows that the proportion of DFID's staff that are posted overseas has remained roughly constant during this period of growth, at just over half. As at September 2014, 53% of staff were based overseas.[248]

Figure 12: Location of DFID Staff



	Mar-11	Mar-13	Sep-14
Staff appointed in country	758	967	975
Home Civil Servants located overseas	409	528	549
London	687	705	801
East Kilbride	472	531	568
Total	2,325	2,731	2,894

Source: NAO report, Figure 29, Appendix 6

132. Witnesses stressed the importance of DFID maintaining this in-country capacity. Adam Smith highlighted the achievements of DFID's Afghanistan programme, "widely viewed as the gold standard among donors in the country"[249] precisely because it has maintained a strong presence.

> These successes both on project delivery and project management have come about as a result of an investment that DFID has made… in the form of maintaining a good headcount for the DFID Afghanistan office in Kabul. Unlike other donors, DFID has maintained a strong presence of capable and experienced DFID staff to design, develop, procure and deliver high quality programmes.[250]

Adam Smith added that DFID needed to employ more staff in its country offices to increase its effective bilateral programming:

> There is a need for an increase in DFID's headcount… on the frontline, so there are sufficient qualified personnel in-country to oversee and guide programmes…It makes much sense for DFID to maintain a sufficient headcount in order to maintain quality bilateral programming rather than

247 See: Department for International Development Annual Report and Accounts 2013-14, Section 6.5, Remuneration Report, p. 148; Foreign and Commonwealth Office Annual Report and Accounts 2013-14, Remuneration Report p.64

248 NAO Report, p 71, Figure 29

249 Adam Smith International submission, paragraph 2.10

250 Adam Smith International submission, paragraph 2.12

> channelling more money through multilateral programmes that suffer from myriad problems of ineffectiveness and unaccountability.[251]

There is also an argument for keeping staff in post for longer, as we have argued before. [252] Other agencies have postings for longer periods than DFID.

133. There are particular concerns about the high level of staff turnover in Fragile and Conflict Affected states. ICAI pointed out that DFID has not yet had success in changing this.

> One of the key challenges that we have witnessed in our work has been the churn of DFID staff in post, both at the centre and especially in the field, which results in loss of institutional memory. We have seen no indication that DFID's high staff turnover rate (particularly in more fragile countries) is changing.[253]

134. DFID was unable to provide the Committee with data about staff turnover rates. While it collects annual returns from country offices on staff numbers to report in the accounts, it does not include as part of this exercise questions on how many staff have arrived or left the country office during the year, or the average level of service for the country office, and so has no overview of the level of churn in its country offices or if particular country offices at risk from high turnover. DFID did acknowledge that there is an issue of high turnover in Fragile and Conflict Affected states. However, it also noted that short postings are in part deliberate given the stress levels involved in working in these countries,[254] though it is making increasing use of staff's country knowledge while back in London. This short duration of postings to fragile states will be an increasing challenge going forward as DFID moves more of its programmatic focus onto FCAs, and DFID will be required to think radically about what it can do here to retain expertise and continuity.

Staff Skills

135. As DFID's operations evolve, DFID staff need new skills. DFID acknowledged to us that there are some skills gaps in particular professional areas. It has identified mechanisms for addressing some of these gaps, and is rethinking its skills needs.[255] Aside from

251 Adam Smith International submission, paragraphs 4.5, 2.20

252 In last year's Report on the Departmental Report 2012–13, the Committee noted: "We have long been concerned that DFID UK-based staff are not posted abroad for long enough periods and lack adequate language skills. The result, we have believed, is both a lack of good political contacts, which can do a great deal to facilitate development projects and a lack of institutional memory … Home civil servants are usually posted to country offices for an initial three year tour, but there are shorter postings to six of the Department's priority countries" IDC DAR Report 2012-13, paras 62–63

253 ICAI submission, paragraph 2.5

254 "We are not concerned in general about a retention problem for the Department…In terms of within a country team, there is a big difference between the fragile and the non-fragile, which is essentially about whether people can have their family with them while they are on their posting. For places where people cannot have their family with them, the tour lengths are shorter and that is a policy. That is deliberate. It is not just for family reasons, but because the stresses and pressures of being in a place where there are large threats to your personal security make it wise to turn people over." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q53

255 "There are one or two areas where it remains hard to hire the calibre and numbers we would like, and they typically tend to be in expensive niche disciplines for difficult places. Sometimes, it is not as easy as we would like it to be to

programme management and commissioning skills discussed earlier in the report, the Committee received concerns about DFID's skills in two areas:

- DFID's ability to influence across government needs strengthening. Despite its growth into an increasingly significant Department, there is also concern that DFID's need to spend means that it is losing some of its previous skills around relationship building and brokering. The Committee's recent 'Beyond Aid' report highlighted that DFID staff need enhanced brokering skills to cope with the changing context of development–particularly so DFID can influence across Whitehall.[256] Bond and the UK Aid Network echoed this concern over DFID staff's influence over the rest of Government.

  > There remain some concerns about the capacity and ability of DFID and staff to successfully and productively engage across Whitehall–in particular about whether or not DFID 'look in as well as out' sufficiently to engage with, draw expertise from and lead other departments on policies affecting development.[257]

  > DFID responded that the Department needed to enhance its ability to lead a wide variety of organisations and stakeholders in the UK.[258]

- DFID's ability to affect partners in the countries in which it operates. As we discussed in our Beyond Aid report, DFID needs to influence local partners and understand and be engaged with politicians. This requires an understanding of the local and political context. Locally-based staff make a major contribution to DFID's ability to do this, but UK-based staff posted overseas must be able to play their part. This means they must be in post for an adequate time and should have a knowledge of local languages.

- DFID does not sufficiently prioritise language skills. The Committee has expressed frequent concern that DFID needs to enhance its skills in the major languages spoken in its priority countries like Swahili.[259] This ongoing concern is shared raised by the Foreign Affairs Committee looking at the FCO's shortage of language skills, particularly in languages spoken in key FCAs, such as Middle Eastern

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get another couple of public finance specialists to go and work in Kabul. That is a difficult combination of things to get at an adequate rate. We have created a new professional entry system into the Department to train more younger people for those shortage areas so I hope, over time, that problem will recede to some degree, but it is the case that there are one or two areas that remain a challenge for us." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q53 and Q54

256 IDC, The Future of UK Development Cooperation: Phase 2: Beyond Aid, Tenth Report of Session 2014-15,January 2015 paragraph 77

257 Bond and UK Aid Network submission, Section L

258 "I was very struck about the point you make about thinking beyond the Department about all the institutions there are in the UK. You partly make the point about Government—engaging a wider variety of Government organisations—but you also make the point that there are a lot of other institutions beyond Government—corporate, wider public sector, standard-setting bodies, universities and civil society. The Secretary of State basically said the same thing to you when she gave evidence on this. This is something that she thinks is an important area for us to explore more fully." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q53

259 IDC DAR Report 2012-13, Recommendation 23

languages.[260] Language is currently not a required competency for DFID overseas postings, and training is not normally offered to staff prior to departure. Though DFID did report that it is encouraging staff to learn languages while in post. Currently under half of DFID staff speak a second language, and less than a quarter speak it proficiently, which leaves it largely reliant on local professionals, as DFID itself recognises.[261]

> There absolutely is an issue with some rarer languages, especially in a number of African countries. There it is the case that we are quite reliant on our local professionals to help us really understand the context, but we are encouraging the UK-based staff, when they go to take up postings, to invest in their own language skills.[262]

Conclusion and Recommendations

136. **There have been a number of changes to DFID's approach to programming. DFID has placed increased emphasis on Payment By Results, which was a concern to many witnesses.** ***We recommend that DFID introduce Payment by results with considerable care and caution to ensure the many potential difficulties are addressed. PBR presents particular difficulties in FCAs. We recommend that DFID develop a specific strategy for PBR in FCAs. We further recommend that DFID monitor the impact of PBR on its market of suppliers, particularly small suppliers, and provide an update in its 2014-15 Annual Report.***

137. **We welcome DFID's improvements to programme management, notably the introduction of SMART rules to reduce the amount of bureaucracy, time spent in preparing business cases and increase the amount of time spent monitoring impact. As DFID acknowledges, it needs to ensure that the new rules are accompanied by a real change in culture.**

138. **While the emphasis on programme management is and has been particularly important as its budget has increased, DFID must also recognise the importance of other skills such as the ability to influence its partners, including developing country governments and to use effectively the excellent access DFID has to many governments. We have been and remain concerned that DFID's policy of standard three year overseas postings is too short.** ***We recommend that this be increased to four. We recommend that DFID provide in its 2014-15 Annual Report comparative data on staff turnover and the average service period in country offices for each of its country offices, with risk ratings for country offices where it judges this to be too high.***

260 "It is alarming that the strongest criticisms that we have heard about the FCO's capacity to gain local knowledge, and the most striking evidence of a shortfall in proficiency in foreign languages, relate to regions where there is particular instability and where there is the greatest need for FCO expertise in order to inform policy-making." Foreign Affairs Committee, FCO Performance and Finances 2013-14, Ninth Report 2014-15, HC 605, p3

261 "Last time I looked at this, we had 1,300 staff out of 3,000 in the Department with recorded spoken language skills, half of them fully proficient, across 46 languages." Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q57

262 Oral evidence from Mark Lowcock, Permanent Secretary, 4 February 2015, Q57

We also recommend that DFID place more emphasis on language skills. Knowledge of a local language should be a competence for a posting, learning key languages such as Swahili should be encouraged from the start of careers and staff should have relevant language lessons before they begin their posting.

Conclusions and recommendations

Managing the 0.7% Target

1. The Committee welcomes the fact that the UK is the largest economy ever to have reached the target of 0.7% GNI as Official Development Assistance, making it now the second largest provider of ODA in the world. Key to achieving this growth has been DFID's preparation of a pipeline of projects. DFID has to meet a double target: the 0.7% target in the calendar year and then ensuring that its budget is spent by the end of the financial year. This is demanding. DFID has in recent years spent a large share of its budget in November and December with low spending from January to March. There are concerns that this leads to decisions which are less than cost-effective. The NAO identified a number of actions DFID could take, which we support. (Paragraph 37)

2. *We recommend that DFID:*

- *Improve its forecasting, in particular begin making detailed forecasts at or before the beginning of the calendar year rather than in May as it does at present; and provide forecasts for a range of possible outcomes.*
- *work to smooth the profile of its spending and assess the desirability of a target of spending no more than 25% of annual bilateral spending in any two months; and*
- *examine whether high levels of spending in the last two months of the year is providing value for money.* (Paragraph 37

3. We are concerned about two aspects of non-DFID ODA: Departments other than DFID are poor at forecasting ODA. (Paragraph 38)

4. *We recommend that DFID work with other Departments to improve their forecasting.* (Paragraph 38)

5. *We recommend that the NAO undertake an inquiry into the Conflict, Stability and Security Fund once it is fully operational.* (Paragraph 38)

6. We are concerned that DFID's accounting for promissory notes encourages it to employ multilateral organisations. Promissory notes are counted as expenditure on average two years before they are cashed and it could be longer before the multilateral organisation spends the money. (Paragraph 39)

7. *We recommend that the NAO review the use of promissory notes. We further recommend that DFID assess whether the issuing of promissory notes in 2013 and 2014 has encouraged the overuse of multilateral organisations, and provide in the financial review section of its annual report an analysis of how long promissory notes have been outstanding and how long before they are due to be cashed.* (Paragraph 39)

Spending trends

8. We note the shift in DFID's spending with an increasing share going to humanitarian assistance, multilateral organisations and centrally managed programmes and a reduction in the share of spending on African bilateral programmes. (Paragraph 75)

9. *We recommend that DFID increase its spending on bilateral programmes run from country offices, especially in Africa. We recommend that DFID set a ceiling for spending on humanitarian assistance, that its assesses whether the UK is spending a disproportionate amount in this area, leading other OECD countries not to pay their fair share and that it sets out criteria for deciding in which parts of the world it will spend large amounts on humanitarian assistance.* (Paragraph 75)

10. *We recommend that DFID review whether the centrally managed programmes are providing value for money and that and that DFID undertake another review of its bilateral aid programmes, reviewing all DFID programmes within a country (including both those managed centrally and by country offices). We further recommend that DFID revise its Departmental Results Framework to ensure it adequately reflects the results achieved from funds invested in centrally managed programmes.* (Paragraph 76)

11. We note that multilateral funding has grown significantly in recent times, particularly in 2013, to such an extent that the UK is now the largest global funder of multilateral ODA, providing almost 50% more multilateral ODA than any other donor country. While multilateralism and international coordination is particularly important in many of the countries DFID operates in, (Paragraph 77)

12. *We recommend DFID carefully assess the balance between bilateral and multilateral ODA, and its use of multilateral organisations.* (Paragraph 77)

13. We note DFID's view that the current division between Low and Middle Income Countries is not always helpful. We further note the desirability of focusing on achieving the MDGs and subsequently the post-2015 development goals. We are concerned by the reduction in spending in some areas vital to achieving key MDGs such as reproductive health and recommend that DFID significantly increase spending in this area and assess whether failure to reduce fertility rates in too many countries is caused by lack of access to contraception or social norms opposed to their use. (Paragraph 78)

Commissioning

14. We recognise that it is not DFID's main function to keep suppliers in business, but we are concerned that DFID is making too little use of small, expert, technical, suppliers and pays too little attention to how its commissioning affects small suppliers. This situation may have been exacerbated by DFID's need to increase its spending rapidly. We welcome the Permanent Secretary's agreement to look at whether restrictions on staff numbers are affecting the extent to which DFID uses smaller suppliers. (Paragraph 105)

Programming and Staffing

15. *We recommend that DFID review its approach to project design and commissioning to ensure it is not excluding smaller suppliers. DFID should aim to increase in 2015 both the absolute value of business going to SMEs and the proportion of its total spending going to SMEs, either directly or in its supply chains. DFID's review should also consider the risks of its reliance on large suppliers and multilateral organisations. We recommend that DFID assess other departments such as Health or DWP, where government is the dominant customer, to learn from their successes and failures in this area.* (Paragraph 105)

16. There have been a number of changes to DFID's approach to programming. DFID has placed increased emphasis on Payment By Results, which was a concern to many witnesses. (Paragraph 136)

17. *We recommend that DFID introduce Payment by results with considerable care and caution to ensure the many potential difficulties are addressed. PBR presents particular difficulties in FCAs. We recommend that DFID develop a specific strategy for PBR in FCAs. We further recommend that DFID monitor the impact of PBR on its market of suppliers, particularly small suppliers, and provide an update in its 2014-15 Annual Report.* (Paragraph 136)

18. We welcome DFID's improvements to programme management, notably the introduction of SMART rules to reduce the amount of bureaucracy, time spent in preparing business cases and increase the amount of time spent monitoring impact. As DFID acknowledges, it needs to ensure that the new rules are accompanied by a real change in culture. (Paragraph 137)

19. While the emphasis on programme management is and has been particularly important as its budget has increased, DFID must also recognise the importance of other skills such as the ability to influence its partners, including developing country governments and to use effectively the excellent access DFID has to many governments. We have been and remain concerned that DFID's policy of standard three year overseas postings is too short. (Paragraph 138)

20. *We recommend that this be increased to four. We recommend that DFID provide in its 2014-15 Annual Report comparative data on staff turnover and the average service period in country offices for each of its country offices, with risk ratings for country offices where it judges this to be too high.* (Paragraph 138)

21. *We also recommend that DFID place more emphasis on language skills. Knowledge of a local language should be a competence for a posting, learning key languages such as Swahili should be encouraged from the start of careers and staff should have relevant language lessons before they begin their posting.* (Paragraph138)

Formal Minutes

Wednesday 18 March 2015

Members present:

Sir Malcolm Bruce, in the Chair

Sir Hugh Bayley
Sir Peter Luff
Chris White
Jeremy Lefroy
Fiona O Donnell

Draft Report (Department for International Development's Performance in 2013-14: the Departmental Annual Report 2013-14), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 138 read and agreed to.

Annex and Summary agreed to.

A Paper was appended to the Report as Appendix 1.

Resolved, That the Report be the Thirteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjourned till Tuesday 24 March at 4.00 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/indcom.

Wednesday 4 February 2015 *Question number*

Mark Lowcock, Permanent Secretary and Richard Calvert, Director General Finance, Department for International Development Q1–61

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/indcom. DAR numbers are generated by the evidence processing system and so may not be complete.

1 Adam Smith International (DAR0009)
2 Bond-Ukan (DAR0005)
3 Coffey International Development Ltd. (DAR0002)
4 Dai (DAR0001)
5 Department For International Development (DAR0013)
6 Department For International Development Annex A (DAR0015)
7 Development Initiatives (DAR0011)
8 Development Results Forum (DAR0010)
9 Dr Garth Glentworth Obe (DAR0014)
10 Independent Commission For Aid Impact (DAR0012)
11 Marie Stopes International (DAR0006)
12 Results Uk (DAR0008)
13 Scotland Malawi Partnership (DAR0004)
14 The Springfield Centre For Business In Development (DAR0003)
15 Wateraid (DAR0007)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/indcom.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15

First Report	UK Support for Humanitarian Relief in the Middle East	HC 248 (673)
Second Report	Scrutiny of Government's UK Strategic Export Controls Annual Report 2012, the Government's Quarterly Reports from October 2012 to September 2013, and the Government's policies on arms exports and international arms control issues	HC 186
Third Report	The UK's Development Work in the Occupied Palestinian Territories	HC 565 (756)
Fourth Report	The Independent Commission for Aid Impact's Performance and Annual Report 2013-14	HC 523 (812)
Fifth Report	Strengthening Health Systems in Developing Countries	HC 246 (816)
Sixth Report	Recovery and Development in Sierra Leone & Liberia	HC 247 (863)
Seventh Report	Appointment of the Chief Commissioner of the Independent Commission for Aid Impact	HC 741
Eighth Report	Responses to the Ebola Crisis	HC 876 (1108)
Ninth Report	Parliamentary Strengthening	HC 704 (1125)
Tenth Report	The Future of UK Development Co-operation: Phase 2:Beyond Aid	HC 663

Session 2013–14

First Report	Global Food Security	HC 176 (626)
Second Report	Violence Against Women and Girls	HC 107 (624)
Third Report	Scrutiny of Arms Exports and Arms Control (2013): Scrutiny of the Government's UK Strategic Export Controls Annual Report 2011 published in July 2012, the Government's Quarterly Reports from October 2011 to September 2012, and the government's policies on arms exports and international arms control issues	HC 205 (CM 8707)
Fourth Report	Multilateral Aid Review	HC 349 (694)

Fifth Report	ICAI's Annual Report 2012-13	HC 566 (946)
Sixth Report	Implications for development in the event of Scotland becoming an independent country	HC 692
Seventh Report	The Closure of DFID's Bilateral Aid Programmes: The Case of South Africa	HC 822
Eighth Report	The Future of UK Development Co-operation: Phase 1: Development Finance	HC 334
Ninth Report	Democracy and Development in Burma	HC 821
Tenth Report	Department for International Development's Performance in 2012-13: the Departmental Annual Report 2012-13	HC 693 (522)
Eleventh Report	Disability and Development	HC 947 (336)

Session 2012–13

First Report	DFID's contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria	HC 126 (609)
Second Report	Scrutiny of Arms Exports (2012): UK Strategic Export Controls Annual Report 2010, Quarterly Reports for July to December 2010 and January to September 2011, The Government's Review of arms exports to the Middle East and North Africa, and wider arms control issues	HC 419 (CM 8441)
Third Report	The Development Situation in Malawi	HC 118 (641)
Fourth Report	Tax in Developing Countries: Increasing Resources for Development	HC 130 (708)
Fifth Report	DFID's programme in Zambia	HC 119 (759)
Sixth Report	Afghanistan: Development progress and prospects after 2014	HC 403 (862)
Seventh Report	UK Aid to Rwanda	HC 726 (949)
Eighth Report	Post-2015 Development Goals	HC 657 (1065)
Ninth Report	Department for International Development's Annual Report and Accounts 2011–12	HC 751(1098)
Tenth Report	Pakistan	HC 725

Session 2010–12

First Report	Appointment of the Chief Commissioner of the Independent Commission for Aid Impact	HC 551
Second Report	The 2010 Millennium Development Goals Review	HC 534 (HC 959)

	Summit	
Third Report	Department For International Development Annual Report & Resource Accounts 2009–10	HC 605 (1043)
Fourth Report	The World Bank	HC 999 (1044)
Fifth Report	The Future of CDC	HC 607 (1045)
Sixth Report	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010, licensing policy and review of export control legislation	HC 686 (CM 8079)
Seventh Report	The Humanitarian Response to the Pakistan Floods	HC 615 (1435)
Eighth Report	The Future of DFID's Programme in India	HC 616 (1486)
Ninth Report	DFID's Role in Building Infrastructure in Developing Countries	HC 848 (1721)
Tenth Report	The Closure of DFID’s Bilateral Aid Programme in Burundi	HC 1134 (1730)
Eleventh Report	Financial Crime and Development	HC 847 (1859)
Twelfth Report	Working Effectively in Fragile and Conflict–Affected States: DRC and Rwanda	HC 1133 (1872)
Thirteenth Report	Private Foundations	HC1557 (1916)
Fourteenth Report	Department for International Development Annual Report and Resource Accounts 2010–11 and Business Plan 2011–15	HC 1569 (107)
Fifteenth Report	South Sudan: Prospects for Peace and Development	HC 1570 (426)
Sixteenth Report	EU Development Assistance	HC 1680 (427)